# EXHIBIT A

Getting you there.

FORTIS

# Annual Review 2005

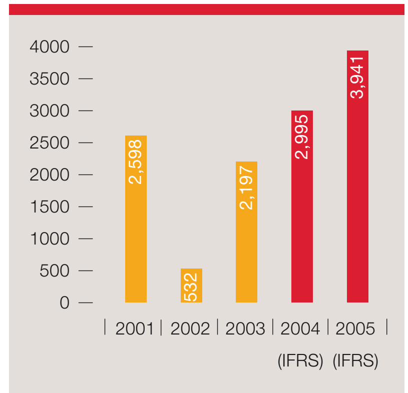
# How we did in 2005

Another great year: strong growth in net profit

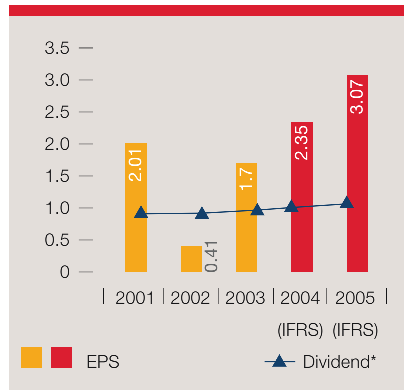
| | 2005 | 2004 (pro forma) | change |
|---|---|---|---|
| **Income statement** (in EUR million) | | | |
| Banking | | | |
| • Revenues | 8,991 | 7,692 | 17% |
| • Expenses | (5,603) | (5,344) | 5% |
| Insurance | | | |
| • Gross inflow Life | 11,481 | 8,123 | 41% |
| • Gross written premiums Non-life | 4,775 | 4,636 | 3% |
| • Operating costs | (1,256) | (1,310) | -4% |
| Net profit before results on divestments | 3,498 | 2,410 | 45% |
| • Banking | 2,434 | 1,590 | 53% |
| • Insurance | 1,225 | 1,127 | 9% |
| Results on divestments | 443 | 585 | -24% |
| Net profit | 3,941 | 2,995 | 32% |
| **Balance sheet** (in EUR billion) | | | |
| Due from customers | 280.8 | 227.8 | 23% |
| Customer deposits | 181.5 | 164.7 | 10% |
| Shareholders' equity | 18.9 | 15.3 | 23% |
| Total assets | 729.0 | 614.1 | 19% |
| Assets under management | 383.2 | 307.0 | 25% |
| **Financial measures** | | | |
| Return on equity | 23.0% | 21.6% | |
| Cost/income ratio (Banking) | 62.3% | 69.5% | |
| Risk-weighted commitments | | | |
| (Banking, in EUR billion) | 212.1 | 172.4 | 23% |
| Tier 1 ratio (Banking) | 7.4% | 8.3% | |
| Total capital ratio (Banking) | 10.5% | 11.6% | |
| Combined ratio (Insurance) | 96.0% | 99.3% | |
| **Share information** (in EUR) | | | |
| Per share: | | | |
| • Net profit (EPS) | 3.07 | 2.35 | 31% |
| • Dividend | 1.16 | 1.04 | 12% |
| • Shareholders' equity | 14.75 | 11.97 | 23% |
| Share price (end of period) | 26.92 | 20.36 | 32% |
| Shares entitled to dividend | | | |
| (in millions, end of period) | 1,301 | 1,301 | 0% |
| Market capitalisation (in EUR billion) | 35.0 | 26.5 | 32% |
| **Employees** (year-end) | | | |
| FTEs | 54,245 | 48,859 | 11% |
| • Banking | 41,162 | 35,922 | 15% |
| • Insurance | 13,083 | 12,937 | 1% |
| Headcount | 57,088 | 50,846 | 12% |

Fortis is publishing its annual results in 2005 in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards and Interpretations, as at 31 December 2005 and as adopted by the European Union. It is applying hedge accounting from 2005 onwards to reflect the underlying economic reality and hence to reduce accounting volatility. For that reason, and in accordance with IFRS, Fortis has not applied hedge accounting retroactively to the 2004 figures. However, for purposes of comparison, Fortis has published a set of pro forma results for 2004, taking account of the existing hedging strategies. Consequently, unless stated otherwise, all references to the 2004 results in this Annual Review relate to pro forma figures not audited by external auditors.
See the 'Glossary' for a definition of the financial measures used.

**Net profit up 32%** (in EUR million)

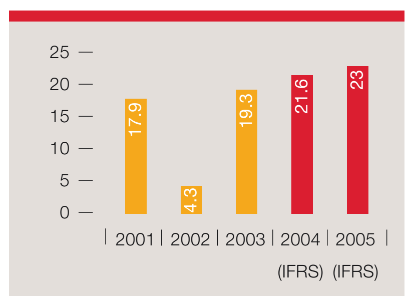



**Further increase in earnings and dividend per share** (in EUR)

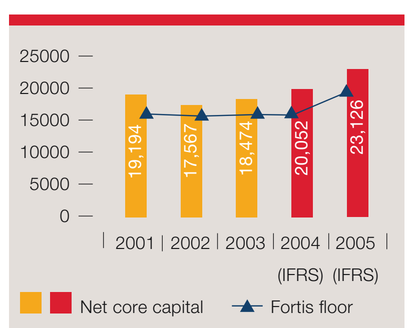



* The 2005 dividend has been proposed to the General Meetings of Shareholders.

**Return on equity reaches 23%** (in %)




**Strong solvency** (in EUR million)

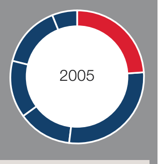


# How we do it - Fortis businesses

**Key figures** (in EUR million) | **Business profile**

## Retail Banking

page 26




Contribution to net profit[1]: 23%

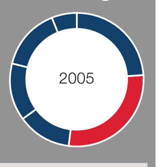
| | 2005 | 2004 |
|---|---|---|
| Revenues | 4,194 | 3,552 |
| Expenses | (2,758) | (2,557) |
| Net profit | 862 | 541 |
| Funds under management (EUR bn) | 111 | 90 |
| Cost/income ratio | 65.8% | 72.0% |
| Operating leverage | 10.2% | N.A. |
| FTEs (year-end) | 14,186 | 14,509 |

Retail Banking provides financial services to individuals and small businesses. Six million customers in Benelux and Turkey currently use Fortis's integrated banking and insurance services.

The business is also active in France and Poland, where it specialises in financial advice to businesspeople.

## Merchant Banking

page 32




Contribution to net profit[1]: 27%

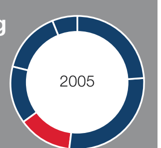
| | 2005 | 2004 |
|---|---|---|
| Revenues | 2,308 | 1,748 |
| Expenses | (1,327) | (1,253) |
| Net profit | 1,008 | 467 |
| Cost/income ratio | 57.5% | 71.7% |
| Operating leverage | 26.2% | N.A. |
| FTEs (year-end) | 4,159 | 3,908 |

Merchant Banking offers tailored investment and financing solutions to Fortis's institutional and corporate clients.

The business combines Benelux market leadership with a strong European and worldwide position in fields like structured credits and shipping, commodity and project finance.

## Commercial & Private Banking

page 36




Contribution to net profit[1]: 13%

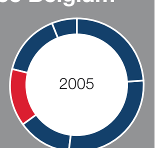
| | 2005 | 2004 |
|---|---|---|
| Revenues | 2,088 | 1,842 |
| Expenses | (1,289) | (1,115) |
| Net profit | 460 | 491 |
| Funds under management (EUR bn) | 70 | 52 |
| Cost/income ratio | 61.7% | 60.5% |
| Operating leverage | -2.3% | N.A. |
| FTEs (year-end) | 6,119 | 5,419 |

Commercial Banking's integrated European Business Centre network provides medium-sized enterprises active cross-border with a full range of financial services, delivered via a single Global Relationship Manager.

Private Banking offers integrated worldwide asset and liability management solutions to private clients, their businesses and their advisors.

## Insurance Belgium

page 40




Contribution to net profit[1]: 13%

| | 2005 | 2004 |
|---|---|---|
| Gross inflow: | | |
| • Life | 5,280 | 4,300 |
| • Non-life | 1,164 | 1,097 |
| Operating costs | (348) | (344) |
| Net profit | 488 | 472 |
| Operating leverage | 7.5% | N.A. |
| Combined ratio (Non-life) | 97% | 98% |
| FTEs (year-end) | 5,003 | 5,172 |

Insurance Belgium consists of FB Insurance (bancassurance) and Fortis AG (distribution via independent intermediaries).

The business operates a multi-channel strategy, supplying life and non-life policies to private clients and SMEs.

Group life, healthcare and pension products for large enterprises are delivered by the unit Fortis Employee Benefits.

## Insurance Netherlands

page 44


Contribution to net profit[1]: 15%

| | 2005 | 2004 |
|---|---|---|
| Gross inflow: | | |
| • Life | 2,635 | 2,542 |
| • Non-life | 1,969 | 2,086 |
| Operating costs | (556) | (514) |
| Net profit | 533 | 449 |
| Operating leverage | 6.9% | N.A. |
| Combined ratio (Non-life) | 92% | 98% |
| FTEs (year-end) | 4,652 | 4,809 |

Insurance Netherlands is made up of Fortis ASR and four specialist insurers.

Fortis ASR is a large generalist insurer offering businesses and individuals a wide range of life and non-life policies, together with mortgage and savings products.

The four specialists supply income protection, unit-linked insurance, travel and leisure cover, and funeral policies.

## Insurance International

page 48


Contribution to net profit[1]: 6%

| | 2005 | 2004 |
|---|---|---|
| Gross inflow[2]: | | |
| * Life | 3,567 | 1,222 |
| * Non-life | 1,642 | 1,424 |
| Operating costs | (353) | (250) |
| Net profit | 202 | 129 |
| Operating leverage | 31.6% | N.A. |
| Combined ratio (Non-life) | 100% | 102% |
| FTEs[2] (year-end) | 3,428 | 2,955 |

Insurance International leverages its existing skills in distribution, operations and products and has established a presence in selected European and Asian markets. It sells its products via a number of channels, including banks.

UK: non-life products via broker network, affinity groups and directly. Luxembourg: principally life products via brokers and bank alliances. France: life products via brokers and own agents. Spain, Portugal and Malaysia: successful joint ventures with local banking partners. Thailand and China: JVs with strong local partners, multi-channel distribution.

Fortis Corporate Insurance (based in Benelux) is also part of Insurance International.

[1] Excluding General. Other Banking: 3% [2] Excluding non-consolidated companies

| Business strategy | Market position | Key developments in 2005 |
|---|---|---|
| • Improve client satisfaction by tailoring service and price<br>• Enhance distribution and cross-selling to raise sales productivity<br>• Develop consumer finance by leveraging existing networks internationally<br>• Target fast-growing markets to steadily rebalance retail portfolio | • Market leadership in Benelux – one of Europe's wealthiest regions<br>- No. 2 in retail financial services<br>- No. 1 credit card issuer<br>• 4 million credit card holders in Benelux and Turkey | • Online banking overtakes branch visits in Belgium<br>• Greater focus on profitable mortgages and small enterprises in the Netherlands<br>• Proactive approach in Luxembourg to expats and wealthy German customers<br>• Record retail funds under management<br>• Acquisition of Disbank, Turkey's seventh largest privately owned bank<br>• Creation of European growth platform for consumer credits, reinforced by takeover of Von Essen Bank in Germany |
| • Pursue focused growth by leveraging key client relationships and strong product franchises<br>• Exploit opportunities in the US and Asia by following key clients and leveraging existing expertise<br>• Constantly improve MB's sound risk management structure and disciplined cost management | • Leadership position in Benelux<br>• Strong positions in selected high-growth products and skills<br>• Worldwide or regional expertise in several rapidly developing sectors<br>• Private equity portfolio in excess of EUR 1 billion | • Cross-selling further lifted by coordinated client coverage<br>• Substantive operations developed in niches like shipping and commodities<br>• Fortis firmly established in securities financing, energy, $CO_2$ trading and other innovative activities<br>• Acquisition of Chicago-based clearer O'Connor & Co. Clients can now be offered worldwide clearing services |
| • Offer service and advice to wealthy individuals, business owners and business managers<br>• Become the leading European cross-border solution provider for the enterprise and the entrepreneur<br>• Sustain competitive advantage by developing specialised financial services<br>• Improve performance and reduce costs | • Leading player in Benelux market for medium-sized enterprises operating cross-border<br>• 114 Business Centres in Europe and two in China<br>• Top 5 position in European cross-border leasing and factoring<br>• World leader in trust and corporate services<br>• Top private banking player: no. 7 in Western Europe and no. 11 worldwide | • Seven new Business Centres in the European Union (including three in new countries), two in China and 12 in Turkey<br>• Strategic non-equity alliance in private banking launched with India's second largest bank, ICICI<br>• Acquisition of Dryden Wealth Management and Atradius Factoring<br>• New Dubai office offers wealth management services in Middle East and Southeast Asia |
| • Reinforce leadership position in broker and banking channels<br>• Sustain focus on innovative product and service offering<br>• Maintain tight relationships with insurance brokers<br>• Increase penetration and cross-selling in bancassurance<br>• Continue to control cost base and pursue synergies | • Largest insurer in Belgium: no. 1 in life and no. 2 in non-life<br>• Leading position in growing market for group life and pensions<br>• Biggest real estate asset manager in Belgium | • Cooperation with Banque de La Poste gets off to strong start<br>• Number of affiliates in healthcare portfolio virtually doubled since 2004<br>• Rated 'Best Composite Insurer' for the third year in a row in ICMA independent survey of 600 insurance brokers<br>• Fortis AG and FB Insurance integration on track |
| • Distribution primarily via independent brokers, plus tied agents, fee consultants and Fortis banking businesses<br>• Main focus on profitable growth in life and disability insurance, pensions, bancassurance and assurfinance<br>• Specialist insurers focus more tightly on their core markets | • Third-ranking insurer in the Netherlands<br>• Leading market position in individual life and non-life cover, disability insurance, niche markets (travel and leisure, funeral policies)<br>• Thanks to our investment policy, Insurance Netherlands is the largest Dutch private landowner | • Three generalist insurance companies (AMEV, Stad Rotterdam, Woudsend) integrated into Fortis ASR. New brand launched in October<br>• Straight-through processing capabilities regarded as best available in market<br>• Intensified cooperation in bancassurance with Fortis banking businesses<br>• Good scores in broker satisfaction surveys |
| • Leverage existing market positions with new product/market combinations to increase profitability<br>• Establish strong footholds in international markets by leveraging Fortis's existing insurance expertise<br>• Enter selected new markets in Europe and Asia, independently or in collaboration with solid local partners<br>• In new and existing markets, focus on multi-channel distribution with forward distribution integration | • Leadership positions in bancassurance (Spain, Portugal, Malaysia, Luxembourg)<br>• UK's third largest private car insurer<br>• Corporate insurance: strong position in Benelux thanks to integrated approach<br>• No. 6 life insurer in China and no. 6 in Thailand. No. 1 in Malaysia for new individual life business<br>• Nationwide licence in China | • Successful incorporation of Millenniumbcp Fortis<br>• Acquisition of UK-based OutRight and Affinity Solutions in fast-growing affinity segment<br>• Acquisition of MNIH will make Mayban Fortis a leading multi-channel insurer in Malaysia<br>• Strong performance from Fortis Corporate Insurance, which has been given an A+ financial rating by Fitch |

# Your dreams

All of us have dreams and ambitions. You want to succeed and to prosper in your life's journey. And that means taking your unique ideas and plans and putting them into practice.

Like every traveller, you need to think carefully and to plan before you set off. But it's absolutely worth the effort: there is no feeling like knowing you're headed firmly towards that destination you've always dreamed of.

# Getting you there

It's easier to get where you want to be if you have a guide. A travelling companion to encourage you along your way, whether the path is straight or you end up taking the scenic route.

We want to be your guide. Fortis is a financial partner who knows every step of the road you have to take to make your dreams a reality. A companion who is always optimistic and willing to go the extra mile. Who knows places you might not have thought to look. And who gives you the advice you need, just when you need it.

Fortis knows all about getting you there. Because prosperity also means growing, managing and safeguarding your assets. Wherever your life's journey takes you, you'll be surprised what you can do with Fortis at your side.

Dreaming of a secure and happy retirement. We all do it. Maybe we'll go on that world cruise we always fancied but never had the time for. Or take up the piano.

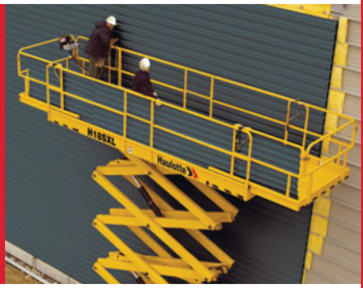
The trouble is, not enough of us give our retirement the attention it needs. Most working people simply assume their state pension will be enough and leave it at that.

We're perfectly placed at Fortis to help our customers prepare for the day when their working lives come to an end. In Belgium, they can now look up the estimated value of their pensions online. And once they've calculated how much capital they will need to maintain their standard of living after retirement, they can turn to our flexible pension offering. Its unique combination of security and high potential returns is just what they need to make those retirement dreams come true.

French-based Haulotte Group is the world's number three manufacturer of aerial work platforms and material lifting equipment. There's no doubt where COO Alexandre Saubot wants to get: "Like all number threes, we hope to become number two. And once we're number two, we'll be aiming for the number one spot."

As a globally active business, Haulotte naturally needs banking services in each of its markets. Enter Fortis. "We have 15 subsidiaries around the world," Alexandre says. "Dealing with a single banking partner that is firmly established in many countries has enormous benefits. With Fortis, when we start up in a new market, we don't have to explain our business and prove ourselves all over again."

Haulotte's partnership with Fortis extends to providing financing and leasing services to the manufacturer's customers in Benelux, Britain, France, Germany, Poland and Spain. "We're happy to go this route with Fortis," Alexandre Saubot concludes. "We're very satisfied with the solutions they have provided."




Improving the balance between their work and their personal lives is a growing concern for many Fortis customers. Governments too are getting in on the act. In the Netherlands, for instance, tax breaks are now offered to people who save for parental or carer's leave, to take a career break or for early retirement.

We couldn't agree more, which is why we launched our new Work-Life Balance Account for the Dutch market last autumn. It's a flexible and attractive account that makes it that bit easier to plan your future. And to create a little more space for the things that truly matter.

# Strategic initiatives realised in 2005

There are three strategic axes to the new strategy we launched at the beginning of 2005. Fortis introduced a series of initiatives along each of them in the 12 months under review.

## Drive organic growth through sharpened customer focus

- Retail Banking in Belgium and the Netherlands extended branch-opening hours, offering more flexibility to our customers.
- The 'Fortis House' concept was developed as a new European business model, bringing together teams from Commercial Banking and Private Banking. They will offer 'one-stop' financial services to a substantial niche consisting of entrepreneurs who would appreciate a single provider for all their private and business banking needs.
- Announcement of a merger between Fortis AG and FB Insurance in Belgium, to be completed in the first half of 2006. The merged unit, Fortis Insurance Belgium, will become the country's largest insurer.
- Fortis drew up a uniform and consistent policy on its financial and other relationships with the defence industry, including a specific approach to controversial weapons.
- MeesPierson set up a joint venture in the Netherlands for sustainable asset management, targeting mandates from charities, foundations and welfare organisations.

## Increase focus outside Benelux

- Commercial & Private Banking opened nine Business Centres. The acquisition of Disbank also enabled us to open twelve new BCs in Turkey. Trust Offices were set up in the United Arab Emirates (UAE), Russia and Poland.
- Fortis entered into a strategic non-equity alliance in July with ICICI Bank – India's second largest – to provide wealth management services to non-resident Indian nationals around the world.
- Merchant Banking opened two offices in North America (in Calgary and San Francisco).
- Fortis was granted a banking licence in the UAE in October. Our new Dubai branch can now offer wealth management services to customers in the Middle East and Southeast Asia.
- Fortis was also granted the first operating license for the new company pension scheme in China.

## Seize non-organic growth opportunities

- In January, Fortis acquired a 51% stake in a joint venture (Millenniumbcp Fortis) with Banco Comercial Português at a cost of EUR 514 million. Millenniumbcp Fortis is Portugal's biggest bancassurer.
- Fortis Lease bought Austria Finanza and Austrolease for EUR 32 million, taking it a step further towards becoming a leading European leasing operator.
- Fortis acquired 93.3% of Disbank – the seventh largest privately owned bank in Turkey – in two steps beginning in July. The total acquisition price was EUR 987 million. Disbank will retain its Istanbul listing.
- OutRight, a leading provider of personal lines insurance solutions in the UK, was acquired by Fortis in September, followed in December by Affinity Solutions, a financial services consultancy firm specialised in the UK's affinity market.
- Dryden Wealth Management, which offers asset management services to private and institutional customers, was bought by Fortis for EUR 84 million in October.
- Mayban Fortis – a Malaysian joint venture with Maybank – acquired Malaysia National Insurance Holdings.
- Atradius Factoring was taken over in November and is being integrated into Fortis Commercial Finance. It will shortly begin to operate under the Fortis brand. Meanwhile, a commercial agreement was concluded between Fortis and Atradius itself, a credit insurer, to use each other's European distribution networks.
- Merchant Banking signed an agreement in November to acquire Chicago-based O'Connor & Co., a leading supplier of clearing services to the US equity, futures and options markets. The acquisition was finalised in February 2006.
- Retail Banking announced the acquisition in December of Von Essen KG Bankgesellschaft, a German consumer finance bank.

## Other key events

- The 2005 'Accountability Ratings', published by think-tank AccountAbility and consultancy csrnetwork, rated Fortis as the 'Most Improved' Fortune Global 100 company.
- Fortis sold 27.2 million shares in Assurant, Inc. in January via a secondary offering. The sale generated a profit of EUR 0.23 billion. A mandatory exchangeable bond was issued on Assurant, Inc. shares at the same time.
- Announcement in August that Belgolaise – Fortis's Sub-Saharan banking subsidiary – would be reorganised in line with Fortis's strategy and business structure and that the divestment plan for the African network subsidiaries would be continued.
- Interim dividend introduced in 2005.
- Fortis's Dutch general insurer, Banque Générale du Luxembourg and Disbank in Turkey were all rebranded as Fortis in the final quarter.

# Where to find it

## Profile

Fortis is an international provider of banking and insurance services to personal, business and institutional customers. The company delivers a total package of financial products and services through its own high-performance channels and via intermediaries and other partners.

Fortis's retail banking operations are the market leader in the Benelux region – one of Europe's wealthiest. Building on that leadership, Fortis has developed an integrated, continent-wide network to serve internationally active enterprises. The same, unique skill-set also provides high net worth individuals, enterprises and entrepreneurs with advanced financial services tailored to their specific needs. Fortis's unmatched expertise has made it a regional and in some cases global leader in niche markets like fund administration, export and project finance, shipping and commodities. Fortis successfully combines its banking and insurance skills in growth markets in Europe and Asia, and it leads the market in bancassurance in Spain and Portugal.

Fortis ranks among Europe's top 20 financial institutions, with a market capitalisation of EUR 39 billion (28 February 2006). With excellent solvency, a presence in 50 countries and a dedicated, professional workforce of 57,000, Fortis combines global strength with local flexibility.



The Financial Statements for 2005 are available as a separate volume.

Jean-Paul Votron (CEO) and Maurice Lippens (Chairman)

# Message from the Board of Directors

Fortis entered a new period in 2005 – Jean-Paul Votron's first full year as CEO. It has been a very exciting 12 months, which began with the Board of Directors redefining the company's ambitions and developing a new strategy.

This is a dynamic company: barely 15 years old but built on foundations stretching back almost three centuries. We have emerged from a period of restructuring with a well-balanced portfolio of six robustly positioned businesses. Our development in the past year has been nourished by strong organic growth and accelerated by acquisitions, leaving us more strongly placed than ever to grow across Europe.

We intend to make that happen by looking selectively for additional sources of growth, creating operating leverage and focusing on our competitive skills. Like every financial services company, Fortis faces ongoing reshuffling in Europe's banking and insurance sector, intensifying competition and sharpened customer demand for product superiority and operational efficiency. It is by anticipating these developments and constantly fine-tuning our offering that we will continue to succeed in the future.

## Growing Fortis profitably

Fortis's leadership in the Benelux market is the rock on which we can leverage our key strengths. It is why we are well placed to defend and improve our competitive position and to deliver on our goal of becoming one of Europe's top financial institutions.

We have set ourselves the target of increasing Fortis's earnings per share by an average of at least 10% a year in the period 2005–09. We will accomplish this mainly through organic growth and by entering new markets, accelerated where appropriate by means of judicious acquisitions. By focusing on Europe and selectively growing in Asia and North America, we aim to drive the proportion of net profit generated outside the Benelux region to 30% by 2009 from 15% in 2004. At the same time, we want to maintain operating leverage of at least 250 basis points over the period 2005–09 ensuring that as we invest in Fortis's expansion our revenues rise at a faster pace than our expenses.

## Meeting our objective

The growth strategy we have adopted to fulfil our ambition of becoming a top European financial institution is straightforward. We aim to grow our banking and insurance franchise profitably by focusing on Europe while pursuing selective growth in Asia and North America.

At the same time, we have to guarantee performance and coherence across Fortis. That means providing our six businesses with effective support services, combined with rigorous risk management and compliance.

As a growing international organisation, Fortis will continue to build a strong, single identity across the company itself and the markets in which we operate, reflecting

## Our ambition: to be a top European financial institution

Competition and consolidation in Europe's financial sector are intensifying. We believe Fortis is excellently placed to grow profitably in this environment and to strengthen our competitive position by leveraging our key banking and insurance skills.

**Fortis's key strengths**

- One of the largest banking and insurance institutions in the Benelux region
- Management of multiple distribution channels
- Proven ability to create value through cross-border combination of banking activities and through strong bancassurance operating model
- Outstanding expertise in broker management
- Excellent track record in insurance joint ventures
- Unique, unified cross-border distribution network focusing on medium-sized enterprises and delivering state-of-the-art private banking services
- Ability to develop profitable niches within our international banking businesses
- Highly diversified business portfolio
- Disciplined cost management
- High ratings and sound solvency position

our desire to 'Act as One'. A high-profile international advertising campaign has been launched, and a series of operations and acquisitions have been successfully integrated and rebranded as Fortis.

## Focus on the customer

The key to our success is getting it right for our customers. Everything starts and ends with our ability to help get them where they want to be. That's why we constantly strive to identify and then to meet our customers' needs.

We were the first financial institution to detect a complex and growing demand on the part of medium-sized companies for cross-border banking and insurance services. As we moved to meet that demand, we also spotted a need among business owners for the management of both their commercial and their private financial affairs. Our response was to adjust our organisation and to position Fortis as the financial services provider for the enterprise *and* the entrepreneur. This is illustrated by our new 'Fortis House' concept, which we are currently rolling out across Europe and which unites all the services these customers need under a single roof.

Other customers too are looking for more than just straightforward banking and insurance products. That's why we develop Fortis solutions that protect and grow our customers' assets and which they can access through a variety of banking, insurance and intermediary channels. Having honed that successful bancassurance model in Belgium, we are now excellently placed to deliver it elsewhere. At the same time, we have developed our 'assurfinance' model – where banking products are distributed via brokers – for markets like the Netherlands.

A third example of how we have successfully detected and reacted to changing customer needs is our round-the-clock accessibility for Belgian retail customers. Our online and phone banking services are available 24 hours a day, while our 'Selfbank' terminals can be used from early in the morning to late in the evening. As of the beginning of 2006, we have a million online customers in Belgium. To serve them even better, we will go on investing in our high-performance internet banking tool.

In other words, our customers are a crucial driver of Fortis's strategy and the key to our future growth.

## Great performance in 2005

The fine results we have published confirm that we are well on track to deliver the targets set out in our strategic plan. The 45% increase in net profit before results on divestments to EUR 3.5 billion has been achieved thanks to buoyant commercial activity at all our businesses, underpinned by strong capital markets and favourable operating conditions.

Organic growth remains our top priority and 2005 saw excellent results on that side, such as record mortgage production in Belgium, successful commercial campaigns in life insurance (driving up total gross inflow by 41%), and a significant net inflow of funds under management (EUR 18 billion, bringing the total to EUR 164 billion).

At the same time, we accelerated our plans last year by acting on several non-organic growth opportunities – subject in each instance to rigorous investment criteria. The most striking examples were the purchase of Disbank in Turkey (rebranded as Fortis in November), Dryden Wealth Management and OutRight in the UK, O'Connor & Co. in the US, and Von Essen KG Bankgesellschaft in

Our customer focus is as strong as ever, our growth strategy is firmly on track and our financial performance outstripped the targets we set ourselves.

**Highlights of Fortis's strategy**

- Focus on the customer
- Grow our banking and insurance franchise profitably
- Concentrate on Europe while pursuing selective growth in Asia and North America
- Strengthen business growth with effective support services, combined with rigorous risk management and compliance
- Create one strong international brand

Germany. This fits with our key strategic objective of growing our international business and creating a more geographically balanced portfolio.

Not only did our share outperform the market, we also returned total dividends (including a newly introduced interim dividend) of EUR 2 billion to our shareholders. Looking at our strong financial performance in 2005, the Board of Directors will propose a cash dividend of EUR 1.16 – up 12% – to the Annual General Meetings of Shareholders on 31 May 2006.

### Roadmap to profitable, sustainable and controlled growth

We are extremely proud of the strong performance Fortis delivered in 2005. And our stakeholders have shared in that success too. There will be no let-up, though, in our competitive spirit or in our ambition to become one of Europe's top financial institutions.

To make that happen, we will continue to generate shareholder value through our business performance, and also through leadership, customer satisfaction and employee commitment. Not to mention good governance, social responsibility and brand strength. All these factors feature prominently in the roadmap (see page 9) that shows who we are, where we are going and how we intend to get there.

**We are determined to sustain our progress and to provide an attractive proposition for our customers, employees, shareholders and other stakeholders, while fully preserving our robust financial health.**

The kind of growth Fortis wants to pursue has to be responsible as well as vigorous. That means our growth path will take account of the interests of all stakeholders, including the community in which we work. We will explore our 'sustainable growth' objective in greater depth in the second *Sustainability Report* that we will publish in May 2006.

Our Board appointed Jos Clijsters and Peer van Harten to the Executive Committee at the beginning of 2005, while in the final quarter two members decided to take a different road. Joop Feilzer, Chief Institutional Relations, announced in October that he would step down from Fortis's Executive Committee. He will now devote his considerable talents to strengthening our position in the Dutch market. The end of the year, meanwhile, saw Jacques van Ek's retirement from the Executive Committee and as CEO of Insurance Netherlands, having made a significant contribution to the development of our insurance operations in the Netherlands. We are sincerely grateful to Joop and Jacques for their commitment and achievements at Fortis. Peer van Harten will use his experience to fuel further growth at both Insurance International and Insurance Netherlands. Jos Clijsters will head up and further develop all of Fortis's retail banking activities.

We would also like to pay tribute here to Jaap Glasz – co-chairman of Fortis from 2002 to 2004 – who passed away in October. Jaap's immense experience and wisdom contributed a great deal to the leadership provided by the Fortis Boards, the internationalisation of which was also substantially attributable to him.

Let us conclude by warmly thanking our customers for their ongoing trust and our employees for the passion, commitment and entrepreneurship that drove this great set of results. We believe that these have put us on the right road for the future.

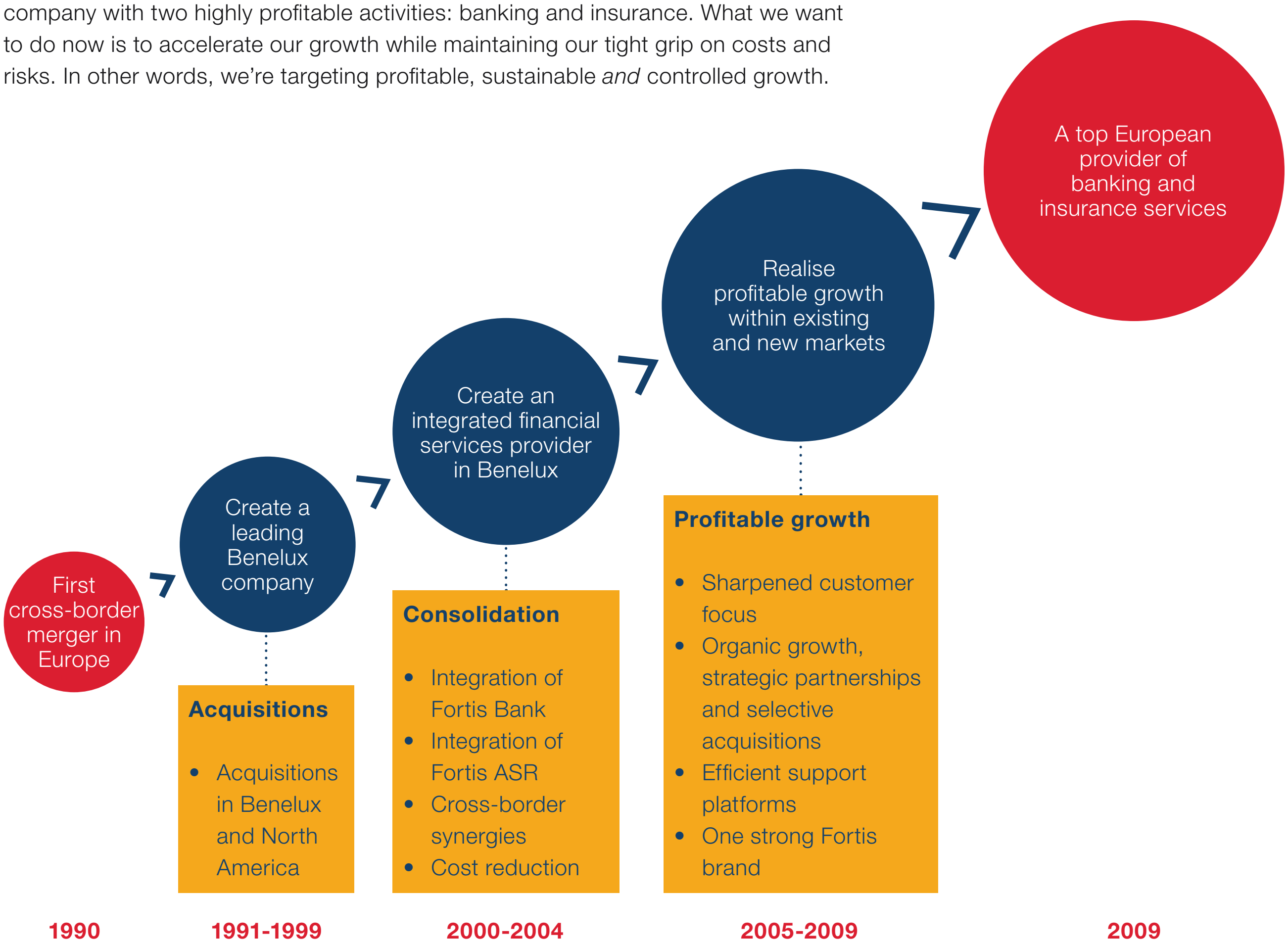
Jean-Paul Votron
Chief Executive Officer

Maurice Lippens
Chairman of the Board of Directors

# Ambitious and committed

Here at Fortis we know just what it means to break new ground. Having become Europe's first cross-border financial services company in 1990, we spent the rest of the decade carrying out a series of important acquisitions. When the new century began and the economic environment turned sluggish, we switched our focus to integrating our operations, exploiting synergies and improving cost efficiency.

As we finalised this consolidation process in 2004, we embarked on the next phase of our strategic journey, setting out our long-term ambitions for 2009. Fortis is one company with two highly profitable activities: banking and insurance. What we want to do now is to accelerate our growth while maintaining our tight grip on costs and risks. In other words, we're targeting profitable, sustainable *and* controlled growth.




Did you know that Fortis... has been active in the world of finance for nearly 300 years? Our predecessors traded with Catherine the Great and financed the United States' purchase of Louisiana from Napoleon.

Ambitious and committed | 9

## Roadmap to profitable, sustainable and controlled growth

| Who we are | Where we're going | How we'll get there |
|---|---|---|
| We are a real financial partner for our customers. A partner who understands what they care about most and who can grow with them.<br><br>We are responsible and trustworthy, and can draw on a long and rich leadership history.<br><br>We offer our customers smart and pragmatic solutions that get them where they want to be.<br><br>And we share that same positive energy with our employees, shareholders and the community. | Fortis aims to be a top European financial institution, while pursuing selective growth in North America and Asia.<br><br>Growth strategy:<br>• Sharpen customer focus and stimulate revenue growth<br>• Increase profit contribution from outside Benelux<br>• Grasp non-organic growth opportunities (acquisitions, strategic partnerships)<br>• Create efficient support platforms | • Operate under one Fortis brand with a strong identity<br>• Deepen our relationships with customers by offering them relevant, meaningful and differentiated products and services<br>• Leverage our sales and distribution capabilities<br>• Unlock the potential of committed employees<br>• Focus on leadership development<br>• Strengthen risk control<br>• Enhance performance management<br>• Apply principles of sustainable development |

This roadmap to growth puts the focus firmly on our customers. They are the ones who drive what we do. It is our customers who determine how we are going to serve them and where. Getting them to where they want to be, giving them solutions to protect and grow their assets and delivering superior value: that's how we'll be able to make the difference.

### Effective operating model

Our goals are profitable growth and a bigger share of earnings from outside the Benelux region. To get there, we have to modify our organisation and cultivate strong leadership.

A new management structure, focusing on shared objectives and clearly defined performance targets, has been bedding down since the beginning of 2005. Responsibility for the success of Fortis as a whole rests firmly and collectively with the members of the Executive Committee.

Strong leadership means that management has to lead by example – by stimulating creativity and entrepreneurship, being ambitious and keeping one step ahead of shifts in our markets. We have to have the right people in the right place if our growth strategy is to succeed. Hence the targeted initiatives we have developed at senior and middle management level, including leadership training and a more rigorous performance evaluation process. The leadership skills and accountability of our most senior 3,000 managers are being assessed, in order to establish an even stronger performance culture, while simultaneously creating additional opportunities for talented individuals.

We will also make sure that our HR and incentive programmes are sufficiently generous and flexible to fully align our employees' interests with those of the company, our customers and ultimately our shareholders.

Grow our banking and insurance franchise profitably

Although our core banking and insurance businesses are now well established, there is room to serve our customers even better. We can do that in several ways: by increasing our physical presence in key markets outside the Benelux region, leveraging our sales and distribution capabilities more effectively, and deepening our relationships with customers through effective cross-selling. In other words, delivering the total power of the Fortis brand to the customer.

Retail Banking is expected to strengthen its Benelux market position by raising overall customer satisfaction. The business is also due to speed up the rollout of our successful consumer finance operations outside the Benelux region and to make further progress integrating the operations of the former Disbank.

Merchant Banking, meanwhile, is launching a comprehensive plan to deepen its already strong customer relationships and to improve cross-selling. We will also expand our coverage of selected customer franchises, such as shipping and commodities, and product niches like structured finance. That too should foster strong growth outside Benelux.

Commercial & Private Banking will continue to expand in Europe by opening new Business Centres in the next four years. That will give us a presence of around 135 BCs, enabling us to double our market share to 10% of internationally active, medium-sized European companies. At the same time, leveraging the network should help us achieve strong growth in funds under management at Private Banking. We can likewise exploit our proven skills to seize growth opportunities in the European leasing and factoring market and become a top player in these attractive niches.

At Insurance Belgium we aim to extend our market leadership by continuing to fine-tune our bancassurance model and our intermediary distribution channel. The integration of the Fortis AG and FB Insurance operations into Fortis Insurance Belgium is expected to generate synergies and flat costs in real terms in the period to 2009. Additional inflows should result, meanwhile, from the extension of the agreement with Banque de La Poste to include insurance products.

Insurance Netherlands is currently completing the process of integration with the aim of achieving zero cost growth and a solid base for further profitable expansion. We will capitalise on the excellent broker relationships we have built up and further develop our bancassurance operations.

**Cornerstones of profitable growth**

**Grow our franchise profitably**
- Sustained retail focus in banking and insurance
- Commercial & Private Banking is the backbone of our pan-European expansion
- Merchant Banking: continued growth in Benelux and investment globally in selected customer and product niches
- Accelerating growth at Insurance International

**Geographic focus**
- Further growth in Benelux markets
- Focus on Europe
- Selective growth in North America and Asia

**Effective support platforms**
- Organisational structure to guarantee performance and coherence across Fortis
- Leveraging financial resources and integration experience in pursuit of organic and external growth
- Create one strong international brand

## Hoop dreams

**Maxime De Zeeuw's dreams of top-flight basketball came true last year when the talented 18 year-old took the court for Belgian first-division team Verviers-Pepinster. Fortis Basketball School helped get him there. Attached to the club, which we also sponsor, the School means promising youngsters like Maxime can get professional training without missing out academically.**

**Next stop the NBA?**

Insurance International, finally, has been identified as an important driver of growth beyond the Benelux countries. The business's proven skills – such as bancassurance, honed in Spain, Portugal and Malaysia, and its motor insurance expertise in the UK – will be transferred to new and existing markets. At the same time, use of multiple entry strategies to accelerate growth in Europe and Asia will also help us to grow strongly.

### Geographic focus

Organic growth remains our priority. We will go on investing in customer satisfaction to further strengthen our market share in the Benelux region. And we will use Fortis's domestic leadership to target European operations that line up closely with our core competencies. That's why, for example, we opened seven Business Centres in Europe, three of them in new countries. Promising opportunities for Merchant Banking in North America and Asia are being considered, and insurance operations in Asia have also been earmarked as an important spearhead for growth. Gross inflow in Life at Insurance International, for instance, nearly tripled to EUR 3.6 billion and net profit increased by 69%.

At the same time, we will continue to take advantage of non-organic growth opportunities to accelerate our plans, while always adhering to strict investment criteria. We made great strides in 2005 towards meeting our goal of generating 30% of net profit outside the Benelux countries by 2009. We acquired Disbank, Turkey's seventh largest privately owned bank, which was already active in most of the same banking operations as Fortis. The acquisition of Dryden Wealth Management, meanwhile, will strengthen our footprint in wealth management services to private and institutional customers in the United Kingdom, Asia and other important markets. It also adds EUR 8 billion to our funds under management. Merchant Banking has signed an agreement to acquire Chicago-based O'Connor & Co., a leading provider of clearing services to the US equity, futures and options markets. Operations at Millenniumbcp Fortis – Portugal's largest bancassurer – have started well, and we have strengthened our UK insurance activities by acquiring OutRight, one of the UK's top suppliers of personal lines insurance solutions. And at the end of the year, we announced the acquisition of German consumer finance bank Von Essen KG Bankgesellschaft.

### Effective support platforms

We were fully aware as we embarked on the next stage of our ambitious journey that all our businesses have to be able to rely on two critical support functions: the offices of the Chief Financial Officer (CFO) and Chief Operating Officer (COO).

The CFO Office is tasked with tracking and reporting on the financial performance of our businesses. Its job is to continuously challenge our investment strategy from a long-term perspective to ensure that we produce maximum value for our shareholders at all times.

The COO Office represents a new approach at Fortis, the wide-ranging scope of which gives it a critical role in the implementation of our strategic planning. The Office covers all the cross-business functions that fall under the responsibility of the Chief Operating Officer: Information Services & Technology, Human Resources, Facility Management & Purchasing, Legal & Compliance, Risk Management and Operations. Its mission is to help the businesses grow in a controlled way by providing them with efficient and easy to roll out support platforms, combined with risk management and compliance functions. Examples of this Europe-wide infrastructure include the platforms for credit cards and international payments, and a single IT platform for all of Fortis's Business Centres.

### Strict investment criteria

**Business focus**
- Acquisitions have to fit our strategy
- Both partners should be able to add or derive value from the acquisition

**Resource focus**
- Acquisitions must bring us a valuable customer base, specific product capability and/or extension of existing skills
- There has to be a good cultural fit
- Possibility of swift integration

**Financial focus**
- The return on investment (ROI) must at least equal the cost of equity within three years
- Several valuation techniques are used taking into account the specific risk profiles of the acquired business
- EPS impact should be at least neutral after two years

## Keen to perform

Execution will be crucial if we are to realise our profitable growth strategy. Hence the beefed-up performance management culture we have been putting into place. As part of that culture, Fortis's overall financial objectives have been translated into concrete, business-specific indicators, represented in the form of 'dash-boards'. In addition to traditional financial elements like income, volumes, margin and cost ratios, these incorporate customer and market-related factors such as customer satisfaction, market penetration and employee satisfaction. The CFO Office monitors and analyses the perform-ance data generated in this way to help our businesses formulate specific follow-up actions, ensuring that we can realise Fortis's objectives.

In its first full year of operation, the COO Office yielded EUR 81 million in savings, resulting in 0% COO cost growth. Half of these savings were delivered by Operations, thanks to a reduction in the number of FTEs and process improvements. The remainder came predominantly from Facility & Purchasing and Information Services & Technology.

## Investing in our people

The results of our first Fortis-wide Employee Motivation Survey were analysed and acted on in 2005. The purpose of the survey was to measure our employees' level of job satisfaction with a view to identifying areas for improvement. The key priorities that emerged included an enhanced focus on leadership, which has now been addressed by Human Resources. Several initiatives have been launched, including the 'Leadership for Growth' programme – an intensive training course which will be followed by some 3,000 of our managers, focusing on what we have identified as required leadership behaviour.

This emphasis on leadership and a winning mentality, backed up by significant investment in stronger performance management, career development and mobility, will help our talented employees to differentiate Fortis from our competitors.

To serve our customers even better, we have shifted the mix of the workforce in favour of customer-facing roles. Net hiring resulting from organic growth amounted to 700 people in 2005. The average number of training days per employee (in FTEs) increased by 20%, from 3.5 in 2004 to 4.2 in 2005.

Our intensified focus on diversity is another area in which Human Resources is heavily involved. We have drawn up a Diversity Action Plan that sets out to enhance respect between employees, regardless of their social or cultural background, and to maximise each individual's opportunities for personal development. The plan also aims to use the power of diversity to benefit the organisation as a whole. Not to mention increasing mobility, both geographically and between businesses.

**Workforce**

| End 2005 | Number of employees | Number of FTEs |
|---|---:|---:|
| Belgium | 23,908 | 22,778 |
| Netherlands | 13,540 | 12,434 |
| Turkey | 4,654 | 4,654 |
| UK | 3,746 | 3,497 |
| France | 2,859 | 2,820 |
| Luxembourg | 2,766 | 2,602 |
| Poland | 1,045 | 1,016 |
| Other countries | 4,570 | 4,444 |
| **Total** | **57,088** | **54,245** |

## Innovation and entrepreneurship

Fortis Venturing provides us with another way of investing in our people. This unique asset continues to prove its business value by stimulating entrepreneurship on the part of Fortis employees and others. In addition, it serves as an incubator for innovative and potentially lucrative products and services. Since commencing operation in 2001, the unit has developed an opportunity portfolio of 28 ventures in a whole range of fields. It is through this combination of people, innovation and entrepreneurship that Fortis drives organic growth.

### One strong international brand

Another key element in getting us where we want to be is to move steadily towards a single Fortis brand across all our businesses. Our 'Act as One' philosophy means we want to operate as one company with a strong identity. To that end, our banking operations in Luxembourg and Turkey and our insurance activities in the Netherlands were all rebranded as Fortis in the final quarter of 2005. Work also began in that quarter on restyling the Fortis brand across the entire organisation. In December, we launched a major international brand campaign. The theme – 'Getting you there' – represents our passion and commitment to going the extra mile and delivering results for our customers. In so doing we hope to maintain their trust and loyalty in the future. The campaign will raise awareness of Fortis as a whole, while also creating a solid platform on which our individual businesses can present their own unique propositions.


### Our ambitious long-term targets (2005–09)

The sophisticated performance management process described above is built around a series of ambitious long-term strategic and financial targets for the creation of shareholder value. The scorecard shown here gives an idea of what progress we made in 2005 towards meeting those targets.

**Scorecard**

| | 2005–09 targets | | 2005 performance |
|---|---|---|---|
| **Strategic targets** | • Strong focus on organic growth | ✓ | |
| | • Sharpened customer focus as key to sustainable and profitable growth | ✓ | |
| | • Increase non-Benelux net profit share to at least 30% by 2009 | ✓ | 18% |
| | • Seize non-organic growth opportunities to accelerate our plans | ✓ | 10 acquisitions for EUR 1.5 billion |
| **Financial objectives** | • Average annual growth of net profit (excluding results on divestments) per share of at least 10% | ✓ | 45% |
| | • Average operating leverage of more than 250 basis points, to ensure that investments lead to stronger revenue growth relative to underlying costs, | | |
| | - in banking | ✓ | 12% |
| | - in insurance | ✓ | 14% |
| | • Risk-adjusted return on risk-adjusted capital (RARORAC) of at least 15% | ✓ | 22% |
| | • Stable, growing dividend | ✓ | 12% |

## Getting you there safely

**Getting learner drivers out onto the road safely is always a worry. That's why Fortis Venturing invested in VSTEP last year. The Rotterdam-based company creates 'virtual experiences' to make training less hazardous. From the navy to the railways, its simulators make a big difference. Fortis Venturing is our enterprise champion: its mission is to nurture the entrepreneurial skills and imagination of our employees and associates. So far, it has turned 28 ideas into sustainable businesses. Which is why Switzerland's renowned International Institute for Management Development uses us as a prominent case study.**

# Getting you started

**Sometimes it's the simplest dreams that are the most powerful. To express yourself, to build a home, to make your mark. Fortis is the financial partner that can get you and your family where you want to be.**

# Management's Discussion and Analysis

Fortis is publishing its full-year 2005 and 2004 results under the new International Financial Reporting Standards (IFRS) as adopted by the European Union. Under IFRS hedge accounting may not be applied retroactively to the 2004 accounts. However, to facilitate comparison, Fortis has published a set of pro forma results for 2004, taking account of the existing hedging strategies. It is applying hedge accounting from 2005 onwards to reflect the underlying economic reality and hence to reduce accounting volatility. The analysis in this Annual Review refers to movements in the results compared with the pro forma full-year 2004 results, to which hedge accounting was applied.

Fortis applies the fair value option to certain amounts recorded under 'due from customers', 'due to customers', 'debt certificates' and 'subordinated liabilities'. As a result, these items have been revalued in the income statement retroactively to 1 January 2004.

This Management's Discussion and Analysis should be read in conjunction with the 2005 Financial Statements and Auditors' reports.

**Consolidated income statement[1]**

| (in EUR million) | **2005** | **2004** | **2004** (pro forma) |
|---|---|---|---|
| **Income** | | | |
| Interest income | 66,845 | 54,223 | 54,223 |
| Insurance premiums | 12,919 | 11,576 | 11,576 |
| Dividend and other investment income | 918 | 845 | 845 |
| Share in result of associates and joint ventures | 157 | 204 | 204 |
| Realised capital gains (losses) on investments | 1,642 | 1,580 | 1,580 |
| Other realised and unrealised gains and losses | 878 | (940) | 20 |
| Fee and commission income | 3,124 | 2,733 | 2,733 |
| Income related to investments for unit-linked products | 3,224 | 1,129 | 1,129 |
| Other income | 712 | 577 | 577 |
| **Total income** | **90,419** | **71,927** | **72,887** |
| **Expenses** | | | |
| Interest expense | (60,227) | (47,966) | (47,966) |
| Insurance claims and benefits | (11,788) | (10,721) | (10,721) |
| Charges related to unit-linked products | (3,709) | (1,092) | (1,092) |
| Change in impairments | (235) | (380) | (380) |
| Fee and commission expense | (1,615) | (1,516) | (1,516) |
| Depreciation and amortisation of tangible and intangible assets | (548) | (469) | (469) |
| Staff expenses | (4,291) | (3,778) | (3,778) |
| Other expenses | (2,856) | (3,116) | (3,116) |
| **Total expenses** | **(85,269)** | **(69,038)** | **(69,038)** |
| **Profit before taxation** | **5,150** | **2,889** | **3,849** |
| Income tax expense | (1,164) | (510) | (827) |
| **Net profit for the period** | **3,986** | **2,379** | **3,022** |
| Net profit attributable to minority interests | 45 | 26 | 27 |
| **Net profit attributable to shareholders** | **3,941** | **2,353** | **2,995** |

**Consolidated balance sheet (before appropriation of profit)**

| (in EUR million) | 31 December 2005 | | 31 December 2004 | |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | | 21,822 | | 25,020 |
| Assets held for trading | | 62,705 | | 60,320 |
| Due from banks | | 81,002 | | 64,197 |
| Due from customers | | 280,759 | | 227,834 |
| Investments: | | | | |
| • Held to maturity | 4,669 | | 4,721 | |
| • Available for sale | 179,020 | | 153,543 | |
| • Held at fair value through profit or loss | 5,127 | | 3,391 | |
| • Investment property | 2,546 | | 2,304 | |
| • Investments in associates and joint ventures | 1,706 | | 2,209 | |
| | | 193,069 | | 166,168 |
| Unit-linked investments | | 25,667 | | 16,853 |
| Reinsurance, trade and other receivables | | 9,557 | | 6,545 |
| Property, plant and equipment | | 3,197 | | 3,133 |
| Goodwill and other intangible assets | | 1,922 | | 672 |
| Accrued interest and other assets | | 49,294 | | 43,343 |
| **Total assets** | | **728,994** | | **614,085** |
| **Liabilities** | | | | |
| Liabilities held for trading | | 50,562 | | 51,483 |
| Due to banks | | 175,183 | | 121,037 |
| Due to customers | | 259,064 | | 224,583 |
| Liabilities arising from insurance and investment contracts | | 56,109 | | 48,940 |
| Liabilities related to unit-linked products | | 26,151 | | 17,033 |
| Debt certificates | | 77,266 | | 71,777 |
| Subordinated liabilities | | 13,757 | | 13,345 |
| Other borrowings | | 1,699 | | 2,861 |
| Provisions | | 907 | | 852 |
| Current and deferred tax liabilities | | 3,629 | | 3,464 |
| Accrued interest and other liabilities | | 45,011 | | 43,033 |
| **Total liabilities** | | **709,338** | | **598,408** |
| **Shareholders' equity** | | **18,929** | | **15,337** |
| Minority interests | | 727 | | 340 |
| **Total equity** | | **19,656** | | **15,677** |
| **Total liabilities, minority interests and shareholders' equity** | | **728,994** | | **614,085** |

[1] 'Net profit' in this Annual Review corresponds to the 'net profit attributable to shareholders' as reported in this table and in the Financial Statements; 'net profit before results on divestments' corresponds with 'net profit attributable to shareholders' minus the results (net of tax) realised on major divestments by Fortis. The consolidated income statement for 2004 relates to pro forma figures: the item 'other realised and unrealised gains and losses' includes a EUR 960 million pro forma pre-tax result for fair value hedges and the item 'income tax expense' includes a EUR 318 million pro forma additional tax expense. These pro forma figures have not been audited by the external auditors.

## Income statement

Net profit before results on divestments went up 45% to EUR 3,498 million. Results across Banking, Insurance and General all improved considerably. Net profit increased by 32% to EUR 3,941 million in 2005 from EUR 2,995 million in 2004.

### Banking

| (in EUR million) | **2005** | **2004** (pro forma) | **change** |
|---|---|---|---|
| Net interest income | 4,653 | 4,526 | 3% |
| Net commissions and fees | 2,290 | 2,119 | 8% |
| Realised capital gains (losses) | 712 | 516 | 38% |
| Realised and unrealised gains (losses) | 805 | 46 | * |
| Dividend and other investment income | 258 | 225 | 15% |
| Other income | 273 | 260 | 5% |
| **Total revenues** | **8,991** | **7,692** | **17%** |
| Change in impairments | (209) | (208) | 0% |
| **Net revenues** | **8,782** | **7,484** | **17%** |
| Staff expenses | (3,370) | (2,963) | 14% |
| Other operating and administrative expenses | (2,233) | (2,381) | -6% |
| **Total expenses** | **(5,603)** | **(5,344)** | **5%** |
| **Profit before income tax** | **3,179** | **2,140** | **49%** |
| Income tax | (734) | (518) | 42% |
| Minority interests | 11 | 14 | -20% |
| **Net profit** | **2,434** | **1,608** | **51%** |
| Results on divestments | 0 | 18 | |
| **Net profit before results on divestments** | **2,434** | **1,590** | **53%** |

Net profit before results on divestments advanced 53%, from EUR 1,590 million to EUR 2,434 million.

Total revenues in 2005 (net of interest, commissions and fees) climbed 17% to EUR 8,991 million, as a result of buoyant customer activity and strong results linked to capital markets.

Net interest income rose by 3% compared with last year. Net commissions and fees went up 8% to EUR 2,290 million thanks to a very strong fourth quarter in both Retail Banking and Commercial & Private Banking. The increase in other revenues was driven mainly by the 15% rise in dividend and other investment income, predominantly in Merchant Banking.

The change in impairments remained flat compared with last year at EUR 209 million, while the credit loss ratio dropped to 10 basis points from 13 basis points in 2004. This is still substantially below the 25 to 30 basis points that is the expected average credit loss ratio over the cycle.

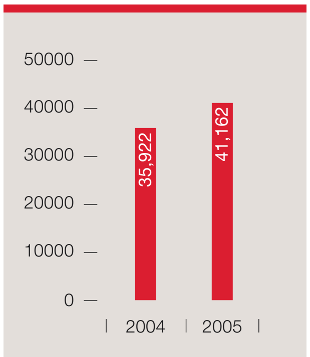
Total expenses went up 5% to EUR 5,603 million. Staff expenses rose by 14% to EUR 3,370 million, reflecting new hirings at Commercial & Private Banking and Merchant Banking, higher variable remuneration linked to improved results and the EUR 135 million impact of investments in upgrading the quality of management. The total number of FTEs rose 15% to 41,162, due chiefly to the integration of Fortis in Turkey, the aforementioned hirings in strategic growth areas and some smaller acquisitions, such as Dryden Wealth Management and Atradius Factoring. Meanwhile, other expenses came down 6%, partly as a result of the initial effects of previously announced cost savings plans. The cost/income ratio consequently improved to 62.3% from 69.5%. Strong revenue growth combined with a controlled increase in costs resulted in an operating leverage of 12%.

Net inflow at Private Banking (EUR 3.3 billion) and Fortis Investments (EUR 11.6 billion), combined with favourable market movements, contributed to a 28% increase in total funds under management in Banking to EUR 157 billion. Loans to customers advanced 23% from EUR 226 billion at

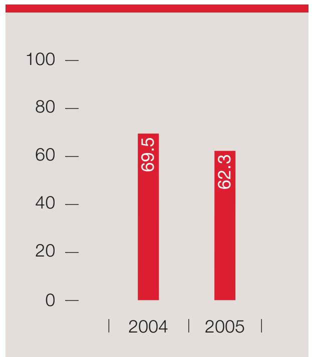
the end of 2004 to EUR 278 billion at year-end 2005. Almost half of this growth is related to the increase in reverse repo agreements, while the other half can be attributed to residential mortgages and growth in commercial and corporate lending. Credit risk-weighted commitments rose 22% from year-end 2004 to EUR 198.2 billion, fuelled by expanding lending operations and the consolidation of Fortis in Turkey.

A treasury centre for banking operations will be set up, in line with our policy of centralising support functions. Following an evaluation of the different options across Europe, Belgium has been chosen as the best location for this centre. The move will lead to more efficient and transparent use of resources allocated to this activity.

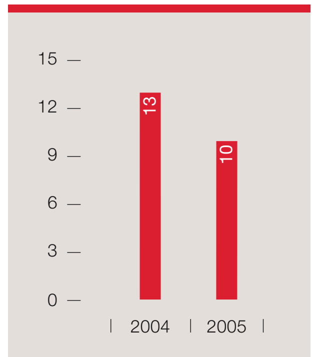
**Employees**
(in FTEs)



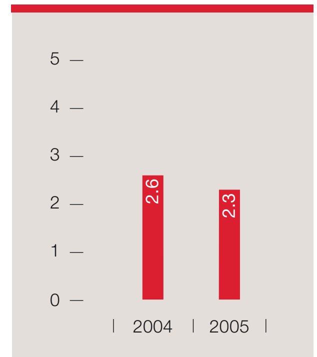

**Cost/income ratio**
(in %)




**Credit loss ratio**
(in basis points)




**Non-performing loans as % of total loans to customers**




## Turkish Scoutmaster

**When he's not managing our Investment Banking operations in Eskisehir, Turkey, or looking after his own kids, Turgut Onaral works as a Scout Leader, helping youngsters to build their knowledge and confidence. "Scouting," he says, "is an educational programme that creates better human beings, both physically and mentally. It teaches children about life by offering them new experiences."**

## Fortis in Turkey

Disbank, Turkey's seventh largest privately owned bank, was acquired by Fortis in July 2005 and Fortis rebranded in November. The early days have been very promising, with the bank already contributing net profit of EUR 35 million in the second half of 2005. Its total revenues amounted to EUR 182 million, while total expenses stood at EUR 142 million. The fourth quarter was dominated by the successful rebranding campaign, for which a one-off charge of EUR 17 million was taken.

Fortis is now active in retail, merchant, commercial and private banking in Turkey, where we stand out from our competitors in terms of quality and innovative services, like leasing, factoring, investment banking, portfolio management, and pension funds.

Cooperation and the exchange of best practices have begun in earnest now that Fortis's organisational structure, based around businesses and support functions, is firmly in place. We have set ourselves the ambitious target of doubling our current 2.5% share of the market by the end of 2009. To that end, we will continue to expand our Turkish branch network with the goal of achieving comprehensive market coverage. That will entail raising the number of branches from 186 in 2005 to around 300. At the same time, staff numbers will rise from 4,654 today to 6,300 by the end of 2009.

## Executive of the year

Tayfun Bayazit, CEO of Fortis in Turkey, has been elected 'Executive of the Year 2005' by readers of the Turkish financial daily *Dunya*. The award acknowledged the key role he played in Disbank's acquisition by Fortis and its subsequent rapid rebranding.

### Why was Fortis attracted to Disbank?

- Much-improved operating environment in Turkey
- Large and rapidly growing market with young and dynamic population of over 70 million
- Strong national tradition of entrepreneurship, with numerous deeply rooted small and medium-sized enterprises
- Solid financial structure
- Top-notch management team leading a young and well-educated workforce
- Highly developed information technology systems and alternative distribution channels

| | **2005 Operational highlights** | **2006 Focus** |
| --- | --- | --- |
| Retail Banking in Turkey | The goals in 2005 were to boost customer acquisition, to increase penetration within the existing client base, and to enhance performance measurement.<br><br>We organised 33 Customer Relationship Management campaigns targeting over 200,000 customers. These focused on asset-based (deposits, bonds and mutual funds) and unit-based products (standing orders, insurance and overdraft facilities), and resulted in a 21% sales ratio. Mortgages and car loans were major sources of customer acquisition and cross-sale proposals.<br><br>An innovative and customer-focused bancassurance partnership was introduced on the insurance side. Cross-selling between the bank and insurance channels was intensified, with branch staff referring potential pension customers to the financial advisors.<br><br>Service levels were upgraded at alternative delivery channels and consumer finance operations and credit card rules and policies were updated.<br><br>Our already strong branch network serving the small business market was further extended. SME customer numbers rose 18%, resulting in a market penetration rate of 3.5%. | Intensive efforts for customer acquisition by cross-selling and effective performance measurement will be the main items on the agenda. There will also be a strong emphasis on increasing our service quality while gaining further market share. At the same time, we will closely align our services and commercial organisation with our customers' needs and expectations.<br><br>Financial packages and bundled products will be developed for professional customers, such as doctors, dentists, pharmacists, lawyers and architects.<br><br>A state-of-the-art credit monitoring infrastructure will help Retail Banking increase exposure without sacrificing asset quality. |

| | 2005 Operational highlights | 2006 Focus |
|---|---|---|
| Merchant Banking in Turkey | Merchant Banking operated with five business lines and 132 full-time employees in 2005. Its new organisation, fully integrated with Fortis, is providing a competitive edge, enabling Merchant Banking to leverage favourable market conditions with booming privatisation and M&A activity.<br>• The Corporate & Institutional Banking team had a key role in several landmark deals in 2005.<br>• We extended our skills at Global Markets, dealing with complex local and international product structures.<br>• Fortis is one of Turkey's 12 primary fixed-income dealers and ranks among the top banks in terms of foreign currency and Eurobond transactions. We also achieved 15-fold growth in derivative volumes.<br>• The Corporate Finance Capital Markets team completed a sell side advisory process in the sale of four shopping malls.<br>• Fortis Securities, with its 28,000 retail clients, of whom 40% trade online, ranked in the top ten bank-affiliated brokers by volume.<br>• The Specialised Finance team, established in late 2005, has already completed three transactions worth a total of EUR 100 million. | Turkey is expected to sustain its outstanding macroeconomic performance in 2006, presenting ample opportunities for our clients and our own activities.<br><br>Merchant Banking will continue to expand its franchise and market share by responding to the evolving needs of the market and introducing innovative products. We aim to become one of the leading players in this segment of the Turkish market. |
| Commercial & Private Banking in Turkey | Commercial Banking has some 5,600 customers in Turkey. The newly added Private Banking operations will enable the business to pursue Fortis's overall strategy in this segment of becoming the bank of choice for enterprise and entrepreneur alike.<br><br>Our international Business Centre network was extended by the addition of twelve new BCs in high-potential areas in Turkey, covering over 90% of the country's foreign trade and over 80% of loan and deposit volumes. Three of the new Turkish BCs will operate as 'Fortis Houses', at which private bankers will work alongside relationship managers from Commercial Banking.<br><br>A number of specialised financial services – including leasing, factoring, global cash management and trust – have also been deployed to the new Business Centres. | We will further roll out the 'Fortis House' model by recruiting more account managers and private bankers. Having already achieved an 8% wallet share in terms of loans for Commercial Banking clients, our aim is now to double our market share by 2010. We will also extend our service offering for Private Banking customers.<br><br>In leasing and factoring, the focus will again be on doubling our actual market share of approximately 5% by 2010. |

For accounting purposes, the financial details of our Turkish operations have been reported under 'Other Banking' as of the third quarter of 2005. From 2006 onwards, these figures will be included as part of the various businesses.

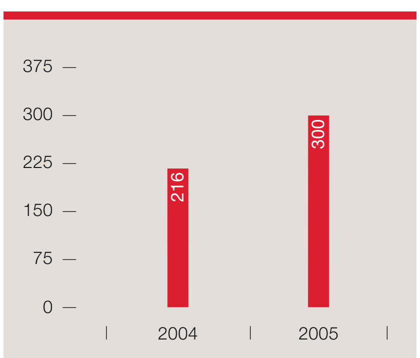
Did you know that Fortis... was Europe's first cross-border financial company and the first to report its results in the single European currency?

## Insurance

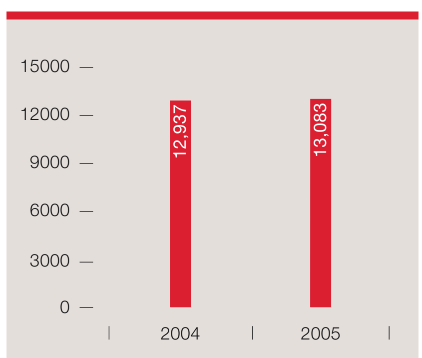
| (in EUR million) | 2005 | 2004 (pro forma) | change |
|---|---|---|---|
| **Life** | | | |
| • Gross written premiums | 8,256 | 6,668 | 24% |
| • Investment contracts without DPF | 3,225 | 1,455 | * |
| **Gross inflow Life** | **11,481** | **8,123** | **41%** |
| **Gross written premiums Non-life**[1] | **4,775** | **4,636** | **3%** |
| **Operating costs** | **(1,256)** | **(1,310)** | **-4%** |
| **Technical result** | | | |
| • Life | 691 | 577 | 20% |
| • Non-life | 537 | 412 | 30% |
| Allocated capital gains | 206 | 150 | 37% |
| **Operating margin** | **1,434** | **1,139** | **26%** |
| • Life | 858 | 705 | 22% |
| • Non-life | 576 | 434 | 33% |
| Non-allocated other income and charges | 298 | 513 | -42% |
| **Profit before income tax** | **1,732** | **1,652** | **5%** |
| Income tax | (473) | (371) | 28% |
| Minority interests | 34 | 9 | * |
| **Net profit** | **1,225** | **1,272** | **-4%** |
| Results on divestments | 0 | 145 | |
| **Net profit before results on divestments** | **1,225** | **1,127** | **9%** |

[1] Excluding EUR 503 million in gross written premiums from Assurant in January 2004 for comparison purposes

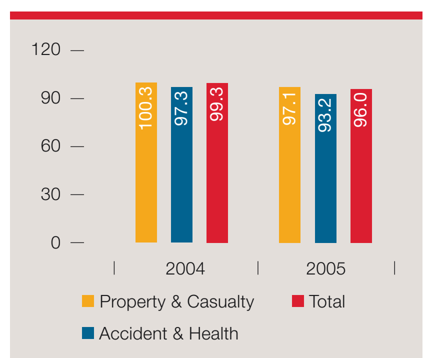
**Value added by new life business**
(in EUR million)




**Employees**
(in FTEs)




**Combined ratio**
(in %)




Net profit before results on divestments increased by 9% to EUR 1,225 million. A 40% rise in the Non-life result to EUR 475 million (as the combined ratio improved from 99% to 96%) and a 5% improvement in net profit in the Life businesses, to EUR 748 million, more than compensated for the absence of profit contribution by Assurant following its divestment.

Our insurance operations closely manage movements in their cost base. Operating costs at our insurance business dropped 4% to EUR 1,256 million. Excluding Assurant, operating costs were up 13% year-on-year due to the inclusion of Millenniumbcp Fortis, costs related to the integration of the Dutch insurance operations, charges taken in the fourth quarter for upgrading the quality of management, the inclusion of OutRight, development of the UK brokerage activities, and development of our International activities.

### Life

Gross inflow at Life advanced 41% to EUR 11.5 billion. Almost two thirds of the EUR 3.4 billion increase was due to the consolidation of Millenniumbcp Fortis as of January 2005, while the remainder can largely be attributed to the 23% rise in Belgium, which boasted record fourth-quarter sales. Excluding the sale of Assurant and the acquisition of Millenniumbcp Fortis, gross inflow was still up a healthy 18% on the back of the aforementioned strong sales in Belgium and double-digit growth in Luxembourg and France.

The operating margin at Life improved in 2005 by 22% to EUR 858 million. Although all businesses contributed to this growth, more than half of it was due to better investment margins in Belgium. The performance of Millenniumbcp Fortis and the return to profitability in France were also responsible for this upward trend.

The embedded value of life insurance operations provides additional information on the value of the contracts in force and the value of new business. The 2005 figures have been calculated in accordance with the European Embedded Value (EEV) principles for the first time. After taking account of the dividend payment to Fortis, EEV reached EUR 10.8 billion at year-end 2005. In keeping with our strategy of focusing on profitable growth, value added by new business (VANB) grew substantially faster than new sales, resulting in a 12 basis-point increase in the new business margin to 2.94%. Growth was mainly driven by the higher proportion of sales generated through the banking channel in Belgium, the contribution of Millenniumbcp Fortis and improved margins at Insurance International.

### Non-life

Gross written premiums at Non-life increased 3% (excluding gross written premiums of EUR 503 million at Assurant in 2004). All product branches in Belgium and International contributed to this rise. The 6% decrease in gross written premiums at Non-life in the Netherlands was due to a stricter acceptance policy at Motor (-9%) and to an amendment in accident and health legislation, resulting in a repayment of premiums (-7%).

The operating margin at Non-life increased by 33% to EUR 576 million, reflecting sharply higher technical results (+30% to EUR 537 million), particularly at Insurance Netherlands and Insurance International. All product branches contributed to this growth.

The combined ratio for Non-life improved by 330 basis points to 96.0%, driven by Property & Casualty and Accident & Health. This improvement can be attributed to premium growth, a favourable claims environment in terms of frequency and severity, and a lower expense ratio.

## General (including eliminations)

| (in EUR million) | **2005** | **2004** (pro forma) | **change** |
|---|---|---|---|
| Insurance premiums | (75) | (115) | -35% |
| Net interest income | (233) | (257) | -9% |
| Net commissions and fees | 0 | 1 | * |
| Realised capital gains (losses) | 437 | 395 | 11% |
| Realised and unrealised gains (losses) | 57 | (49) | * |
| Dividend and other investment income | (1) | (13) | -91% |
| Other income | (59) | 0 | * |
| **Total revenues** | **126** | **(38)** | * |
| Change in impairments | | | * |
| **Net revenues** | **126** | **(38)** | * |
| Technical charges | 163 | 192 | -15% |
| Staff expenses | (53) | (58) | -8% |
| Other operating and administrative expenses | 3 | (39) | * |
| **Total expenses** | **113** | **95** | **19%** |
| **Profit before income tax** | **239** | **57** | * |
| Income tax | 43 | 62 | -31% |
| Minority interests | 0 | 3 | * |
| **Net profit** | **282** | **116** | * |
| Results on divestments | 443 | 422 | 5% |
| **Net profit before results on divestments** | **(161)** | **(306)** | **-47%** |

The unusually high net profit at General in 2005 and 2004 (EUR 282 million and EUR 116 million respectively) was related to the positive impact of the divestment of Assurant in the first quarter of these years. Excluding this factor, the net loss at General decreased from EUR 306 million to EUR 161 million.

The decrease in net loss at General was due primarily to higher realised and unrealised capital gains related to some financing instruments that are marked-to-market and fewer adjustments for treasury shares. Net interest income was higher than last year as the proceeds of the divestment of Assurant raised the cash position at General.

## Solvency

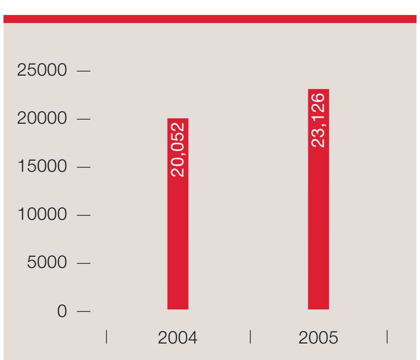
| (in EUR million) | 31 December 2005 | 31 December 2004 | change |
|---|---|---|---|
| **Shareholders' equity** | **18,929** | **15,337** | **23%** |
| Minority interests | 727 | 340 | |
| Hybrid loans | 4,080 | 4,155 | |
| Revaluation of real estate to fair value | 1,678 | 1,549 | |
| Revaluation of bonds, net of shadow accounting | (2,582) | (2,977) | |
| Reversal of non-trade derivatives and hedge accounting | 696 | 1,458 | |
| Goodwill | (715) | (77) | |
| Treasury shares | 313 | 267 | |
| **Net core capital** | **23,126** | **20,052** | **15%** |
| Solvency requirements: | | | |
| • Floor | 19,300 | 16,371 | |
| • Cap | 24,238 | 20,679 | |
| Bank: | | | |
| • Risk-bearing capital | 22,210 | 19,969 | 11% |
| • Risk-weighted commitments | 212,095 | 172,391 | 23% |

Shareholders' equity grew to EUR 18.9 billion, up EUR 3.6 billion compared with 2004, mainly due to movements in the retained profit and the revaluation of investments.

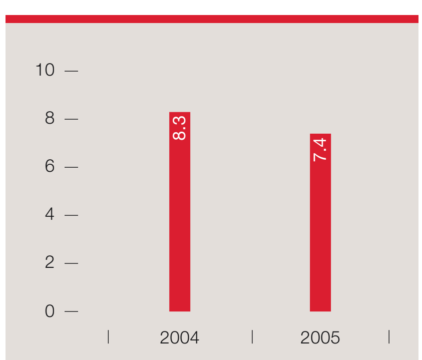
On 31 December 2005 net core capital stood at EUR 23.1 billion, which was 120% of Fortis's own floor. Net core capital is calculated conservatively and excludes any unrealised capital gains on the bond portfolio, goodwill and any elements of embedded value.

The Tier 1 ratio at Fortis Bank came down from 8.3% at the end of 2004 to 7.4% at year-end 2005. The decline was due mainly to the sharp rise in risk-weighted commitments related to organic growth of the businesses and the acquisition of Disbank in the third quarter. Fortis has reported its solvency figures on the basis of Belgian GAAP, as required by the Belgian supervisory authorities. As of the first quarter of 2006, solvency reporting will be based on IFRS as adopted by the European Union. Note 3 of the Financial Statements explains the differences between Belgian GAAP and IFRS.

**Net core capital** (in EUR million)




**Tier 1 ratio** (in %)




**Total capital ratio** (in %)

## Key figures

| Breakdown by business | Net profit | | RARORAC | | FTEs | |
|---|---|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** |
| Retail Banking | 23% | 19% | 26% | 15% | 26% | 30% |
| Merchant Banking | 27% | 16% | 22% | 11% | 8% | 8% |
| Commercial & Private Banking | 13% | 17% | 18% | 19% | 11% | 11% |
| Other Banking | 3% | 4% | - | - | 31% | 24% |
| Insurance Belgium | 13% | 16% | 30% | 31% | 9% | 11% |
| Insurance Netherlands | 15% | 16% | 27% | 30% | 9% | 10% |
| Insurance International | 6% | 4% | 35% | 29% | 6% | 6% |
| Other Insurance | - | 8% | - | - | - | - |
| | | | | | | |
| Fortis (excl. General) | 100% | 100% | 22% | 16% | 100% | 100% |
| Fortis (incl. General) | EUR 3,941m | EUR 2,995m | | | 54,245 | 48,859 |
| • Banking | 62% | 54% | 20% | 14% | 76% | 74% |
| • Insurance | 31% | 42% | 30% | 30% | 24% | 26% |
| • General | 7% | 4% | - | - | - | - |

In the sections that follow, you will find a description of each business, together with operational highlights in 2005, detailed figures, and the focus in 2006.

# Auditors' statement

We have audited the financial information contained on pages 16 and 17 of this Annual Review, which is derived from the 2005 Financial Statements of Fortis as audited by us. We issued an unqualified auditors' report on these Financial Statements on 8 March 2006.

The pro forma consolidated income statement for 2004, contained on page 16, has not been derived from the Financial Statements; this information has not been subject to our audit procedures.

The financial information referred to above is the responsibility of the management of Fortis. Our responsibility is to express an opinion on the financial information based on our audit.

In our opinion, the financial information corresponds in all material respects with the Financial Statements from which it is derived. For a more comprehensive view of the financial position and results of the company and the scope of our audit, the financial information should be read in conjunction with the complete Financial Statements from which it is derived and the auditors' report we issued in respect of those Statements.

Amstelveen, 8 March 2006

KPMG Accountants N.V.
Represented by S.J. Kroon RA

Brussels, 8 March 2006

PricewaterhouseCoopers Réviseurs d'Entreprise S.C.C.R.L.
Represented by Y. Vandenplas and L. Discry

# Retail Banking

## Business profile

We offer our financial services to retail customers – individuals, self-employed people, members of the independent professions and small businesses – through our Retail Banking business. We operate through a variety of distribution channels in the Benelux countries to deliver service and advice on every aspect of individual banking, saving, investment, credit and insurance. Retail Banking is also active in France and Poland, where we are a niche bank focusing on advice to professionals, business owners and executives. Our extensive retail portfolio in Turkey is served by a full and tailored product offering.

Over 14,000 employees at Retail Banking contribute 23% of Fortis's net profit. We provide our financial services to more than six million customers via a range of distribution channels: 1,620 branches, 2,511 Selfbank terminals and ATMs, online banking and telephone banking.

## Business strategy

Our strategy at Retail Banking is to work constantly to align our services and distribution channels with what our customers want and expect. It is by raising customer satisfaction in this way that we will be able to sustain our profitable growth track. We aim to grow in both mature and emerging markets, while also building our consumer finance business.

In mature markets like the Benelux countries, we will continue to focus on our customers by differentiating between segments, selectively deepening relationships and offering integrated, multi-channel accessibility. At the same time, we will launch growth initiatives in emerging markets to fuel expansion and to rebalance our retail portfolio. Given consumer finance's relatively high margins and growth rates, meanwhile, we will continue to tighten and build our Dutch-based credit card operations and to optimise our operational platforms in Belgium and Turkey. We will also seek to leverage our main platforms in other European markets.

**Key performance indicators**

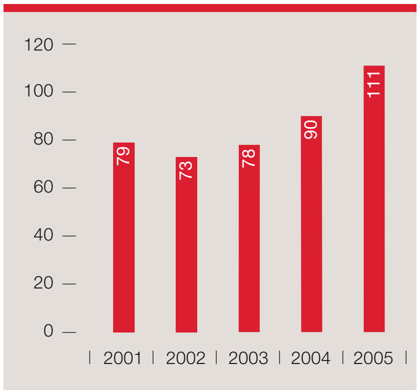
| | **Target for 2005–09** (CAGR) | | **2005 performance** |
|---|---|---|---|
| Total revenues | 3–5% | ✓ | 18% |
| Expenses | 0–2% | | 8% |
| Net profit | >10% | ✓ | 59% |

## Ambition

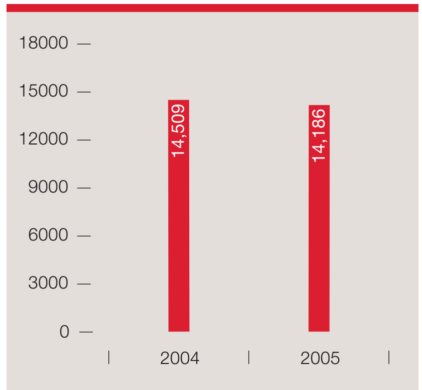
We want to be the preferred bank for our retail customers, which means putting them firmly at the heart of our service model and culture. We are convinced that strengthening the relationship with our customers brings clear benefits on both sides.

Did you know that Fortis... was rated number six in *BusinessWeek*'s Top 50 best-performing European enterprises (June 2005 issue)?

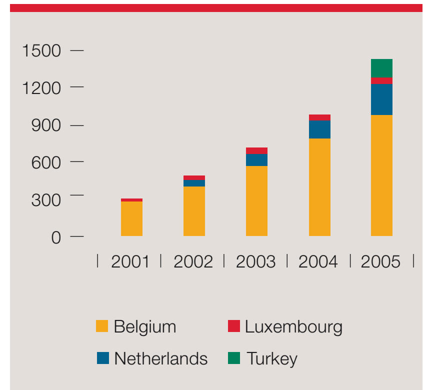
**Funds under management**
(in EUR billion)




**Employees**
(in FTEs)




**Online banking**
(number of contracts, x 1000)




**2005 Operational highlights**

**2006 Focus**

Retail Belgium offers banking and insurance services to the retail customer segment in Belgium.

The combination of an innovative product offering and competitive pricing enabled us to successfully defend our leading market position. We achieved record mortgage production and buoyant life insurance sales in the consumer market, and our online banking product has become a major customer interface, outstripping the branch network in terms of visits. The service standard offered by our branches has been further upgraded, including the extension of opening hours.

Additional personal bankers were recruited to offer a dedicated service to personal banking customers. Credit production rose 20% at Professional & Small Enterprises, confirming our leadership of that market.

Banque de La Poste (a jointly owned subsidiary of Fortis Bank and the Belgian Post Office, with 1.3 million customers) added mortgages to its product offering. Fintro (the new name of Crédit à l'Industrie, with 0.4 million customers) continued to develop as a 'flanker' brand.

Further improve the standard of our service.

Intensify the use of sales tools and distribution channels.

Raise the number of personal bankers.

Increase our share of the independent professional market.

Retail Netherlands offers banking and insurance services to the retail customer segment in the Netherlands.

Profitable mortgages and the small business market were a strong focus in 2005. We also successfully targeted asset gathering by mounting campaigns for mutual funds, structured products and life insurance and we also launched an improved version of our online banking product.

Our customers have responded favourably to Direct Service: a branch concept that combines efficient financial services with personalised advice, discounts on non-financial products and extended opening hours. The service is already available at 100 of the 169 branches.

Direktbank had notable success in selling home loans through intermediaries.

Maintain our strong focus on mortgages by attracting customers with innovative solutions (loyalty programme with financial and other discounts) and package deals (such as insurance and payment services). Continued targeting of the small business market as well as the business owners. Complete rollout of the Direct Service concept to all branches. Launch improved version of our online investment product.

| | 2005 Operational highlights | 2006 Focus |
|---|---|---|
| Retail Luxembourg offers banking and insurance services to the retail customer segment in Luxembourg. | Our focus on customer acquisition and asset gathering was evident in our new expat offering, initiatives targeting new personal banking customers in Germany and a huge asset migration drive into high-value products.<br><br>EU fiscal harmonisation had only a limited impact, thanks to optimum preparation and our wide and innovative alternative product offering.<br><br>Our full line of insurance solutions was complemented by two new life products, one of which has a strong discretionary asset management element.<br><br>Internaxx launched its derivative platform for CFD, forex and futures trading.<br><br>Banque Générale du Luxembourg was rebranded to Fortis in November. | Increase market share by ongoing acquisition of specific customer segments.<br><br>Focus on consumer credits with launch of a new, streamlined and diversified offering.<br><br>Intensify use of sales tools including opening of new call centre and implementation of campaign automation tool. |
| Retail Other Countries offers banking services to small businesses and affluent individuals (entrepreneurs, executives and professionals). | In France, we are working intensively to develop asset gathering – a cornerstone of our strategy (customer advisory/ fee-based business). There was an overall improvement in our service. A survey found that a higher-than-average 90% of our French customers would recommend Fortis to their friends and acquaintances.<br><br>We focused in Poland on preparing and implementing our small enterprise (SE) and personal banking marketing strategies. Record-breaking credit production was achieved in the SE segment, thanks primarily to the successful 'With Fortis to the EU' marketing campaign for EU subsidies and mortgage loans. On the personal banking side, mortgage loan production also reached a new peak. | In France, we will continue to invest in our network targeting small enterprises and personal banking.<br><br>In Poland, the principal challenge in the current year will be to further expand our distribution channels. |
| Consumer Finance comprises a portfolio of consumer credit business in Benelux, Poland, Switzerland, Turkey and (since December) Germany. | We are building and tightening our Dutch-based credit card unit – International Card Services (ICS) – by leveraging our existing, successful credit card operations, with a customer base of over four million card-holders in Benelux and Turkey. ICS gives us a state-of-the-art IT platform on which to develop these activities internationally.<br><br>We are market leader in Belgium in car financing through our Alpha Credit unit. We also continue to build on our presence in Turkey and Poland.<br><br>The acquisition of Von Essen KG Bankgesellschaft – a solid and dynamic bank in Germany – gives us a foothold in what is by far Europe's largest market for consumer finance. | Develop Fortis's consumer finance presence in two new countries and integrate Von Essen into the Fortis structure. |

Fortis Investments is our asset manager with 16 investment centres in Europe, the US and Asia. Fortis Investments serves a global base of local investors, both institutional customers and distribution partners.

**2005 Operational highlights**

Funds under management rose significantly, passing the EUR 100 billion milestone to reach EUR 105 billion (2004 year-end: EUR 87 billion). Once again, the main driver of the increase consisted of new inflows of EUR 11.6 billion, split evenly across institutional and wholesale retail. Highly satisfactory investment performance and positive market impact also contributed.

Fortis Investments expanded in Germany via two transactions: acquisition of a 25.1% stake in Versiko (an asset manager with a strong focus on sustainable investments) and the transfer of the management of a EUR 1 billion portfolio, primarily of balanced products, from Westfalenbank.

In China, we increased Fortis Investments' stake in the Fortis Haitong joint venture from 33% to the legal maximum of 49%. This provides a solid foundation on which to expand the joint venture's already leading position in the Chinese fund management sector, where it has a market share of more than 3%. In August 2005, we were one of a handful of foreign groups to obtain a licence to manage China's new company pension schemes.

We were also granted a new Qualified Foreign Institutional Investor (QFII) quota in November, making Fortis the second largest QFII holder in China. We will also apply to take part in the Qualified Domestic Institutional Investor scheme.

**2006 Focus**

Leverage our position and scale to expand further in both Europe and in new markets.

Consolidate our leadership position in China.

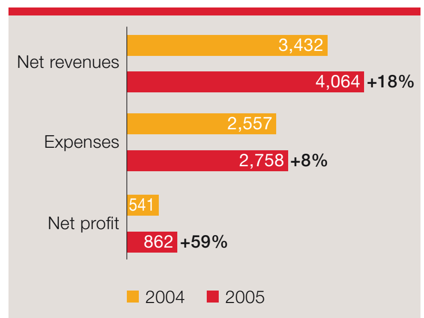
Innovate and develop our core solutions offering.

Further enhance our investment performance.

## Financial performance

**Results of Retail Banking**

| (in EUR million) | 2005 | 2004 (pro forma) | change |
|---|---|---|---|
| Total income, net of interest expense | 4,194 | 3,552 | 18% |
| Change in impairments | (129) | (121) | 7% |
| Net revenues | 4,064 | 3,432 | 18% |
| Expenses | (2,758) | (2,557) | 8% |
| Profit before taxation and minority interests | 1,307 | 875 | 49% |
| Income tax | (445) | (334) | 33% |
| Minority interests | 0 | 0 | * |
| Net profit | 862 | 541 | 59% |
| | | | |
| Cost/income ratio | 65.8% | 72.0% | |
| RARORAC | 26% | 15% | |
| Operating leverage | 10.2% | N.A. | |
| Funds under management (in EUR billion, year-end) | 111 | 90 | 23% |



## Moda Mundo

**We believe in creativity and imagination at Fortis. That's why we organised the 'Moda Mundo' fashion competition last summer, as part of the Couleur Café World Music Festival in Brussels, which we also sponsor. The theme of the event, which was open to amateurs and students, as well as professional designers, was the world's great cities. The Best Newcomer prize went to a design celebrating the dual East-West culture of Hong Kong – an internationalist touch that Fortis can totally identify with.**


### Business environment

Retail Banking's ability to innovate and to anticipate economic developments is especially important in a Benelux market in which competition remains fierce and margins tight. The same qualities are being displayed in response to the extension of European and local regulations to take in a range of new fiscal, anti-money laundering and consumer protection measures, such as customer identification, transparency, explicit risk profile confirmation by customers and basic banking service protection.

New pension regulations in Belgium have given us the opportunity to launch an innovative savings product to help customers top up their state and company pensions. The Dutch government, meanwhile, is encouraging the building of 450,000 new houses, which will increase the number of first-time buyers and help boost the mortgage market. And the new Financial Services Act in the Netherlands will also create a level playing field on which a proactive, customer-oriented player like Fortis will be able to pick up market share.

The overall banking market in Luxembourg is shrinking as the number of non-resident customers declines and assets flow out of the territory. The trend is causing the established banks to focus more clearly on the domestic market – once again playing to Retail Banking's flexibility and innovative strengths.

### Revenues

Total revenues advanced 18% in 2005, driven by good underlying growth in net interest income and net commissions and fees, a strong ALM result and some one-off elements. Excluding the changes of scope (the most important being the inclusion of ICS in Consumer Finance, reported under 'Other Banking' in 2004), total revenues climbed 13%.

Net interest income rose to EUR 2,468 million, up 7% from 2004, thanks to a combination of higher volumes and a margin effect following the 25 basis-point repricing of the Belgian savings account rate on 1 August. Customer deposits grew 7% to EUR 85 billion, while outstanding loans went up 15% to EUR 67 billion, mainly reflecting the growth in mortgages. In the Netherlands, the mortgage portfolio at Direktbank increased 42% to EUR 12.7 billion at year-end.

Net commissions and fees advanced to EUR 1,092 million, up 16% in 2005 compared with 2004. We launched a number of successful campaigns last year which boosted sales of asset management and life insurance products. Transaction fees also went up on the previous year.

The change in impairments increased by 7% to EUR 129 million. This was chiefly the result of the enlarged scope of consumer finance activities and does not reflect a change in the underlying credit quality.

### Expenses

Expenses were up 8% from 2004 to EUR 2,758 million. This was caused mainly by the inclusion of ICS in Consumer Finance and the expansion plans of this business line, rising staff expenses at Fortis Investments (due to hirings and performance-related variable remuneration) and costs involved in upgrading the quality of management. Excluding the latter costs and additional expenses for various marketing campaigns and rebranding operations, underlying cost movements in the retail banking operations were in line with the 0–2% cost growth target announced in June 2005.

We had a total of 14,186 FTEs at the end of 2005, a 2% decrease on year-end 2004. While Fortis Investments and Consumer Finance stepped up hiring in order to support their growth ambitions, the total number of FTEs declined.

### Net profit

We achieved strong customer and sales growth in 2005, significantly boosting productivity and revenues. Net profit jumped 59% to EUR 862 million from EUR 541 million, lifting RARORAC to 26% in 2005. An 18% rise in total revenues and an 8% cost increase led to an operating leverage of 10.2%. The cost/income ratio fell more than six percentage points to 65.8%.

### Funds under management

Net inflow at Fortis Investments was over EUR 11 billion in 2005, bringing total funds under management in Retail Banking to EUR 111 billion, up 23% from the end of 2004.

## Accolades

**Retail Banking**

- Best Bank in Belgium and in Luxembourg (*Euromoney*, July 2005), for the fifth time in a row
- Effie Award in Poland in the 'Financial Services' category, for the campaign to advertise EU-supported investment loans (New York American Marketing Association, November 2005)
- Fortis in Turkey awarded 'Superbrand' status for its Ideal Card brand (credit card) (Superbrand, independent international authority on brands, autumn 2005)
- International Card Services is the first financial service provider in the Netherlands to receive an ITO certificate. This certificate is the mark of quality for accessibility and customer-friendly service (*Instituut voor Telecom Organisatie*, January 2006)

**Fortis Investments**

- Excellent AM2 asset management rating confirmed (Fitch, July 2005)
- Top ranked continental fund manager by European net sales (Feri survey, March 2005)
- Best in Benelux 2005 for structured products (*Structured Products Magazine*, November 2005)
- Fortis Haitong Investment Management placed in China's Top 10 fund managers (*Institutional Investor*, October 2005) and received Fitch's first National Asset Manager rating in China (AM2 rating, June 2005). The unit also won awards for 'Best Corporate Governance' and 'Best Investment Team' from leading Chinese financial newspaper the *21st Century Business Herald* (January 2006)

# Merchant Banking

## Business profile

Merchant Banking is our international wholesale bank. The business combines a wide range of investment banking services to corporate and institutional clients. Our customers have sophisticated financial needs, which the high value-added solutions we develop are able to meet.

In addition to our strong position among investment-grade clients in the Benelux region, we also boast leading global or regional positions and expertise in specific niches like commodity, intermodal (container transport), shipping, real estate, export and project finance. We are geographically diversifying our business by following our core and specialised clients as they expand. Some 60% of our gross income is generated from clients outside Benelux.

## Business strategy

Merchant Banking will use three key levers to realise our ambition: revenue growth, cost efficiency and risk management.

- On the revenue side, we will continue to apply and fine-tune our integrated and systematic client coverage to raise cross-selling. We will also expand further in selected client groups and product niches and geographically in the US and Asia.
- We will further tighten our cost efficiency by continuously optimising our back-office operations and IT infrastructure, and by raising the productivity of our front-office staff.
- Our risk exposure, finally, will be firmly managed by ensuring controlled growth in risk-weighted commitments and by further improving our risk management organisation, processes, methods and tools.

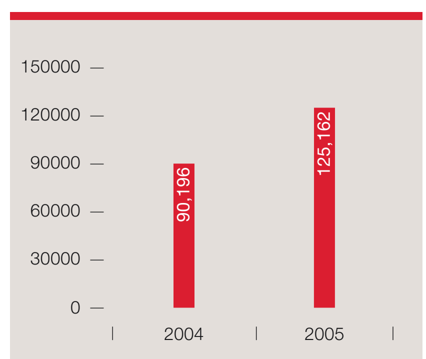
**Key performance indicators**

| | **Target for 2005–09** (CAGR) | | **2005 performance** |
|---|---|---|---|
| Total revenues | 5–10% | ✓ | 42% |
| Expenses | 2–6% | ✓ | 6% |
| Net profit | >10% | ✓ | 116% |

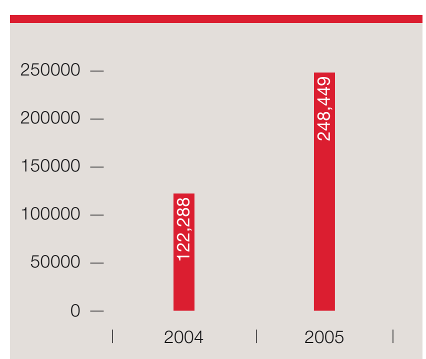
## Ambition

We will continue to pursue double-digit profit growth by further leveraging our core client relationships and by expanding in selected customer and product niches. At the same time, we will maintain tight control of our risk exposure.

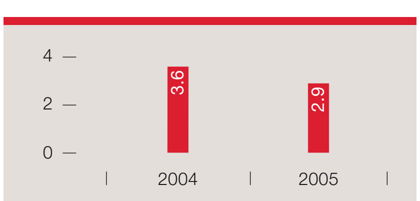
**Outstanding loans to clients**
(in EUR million)



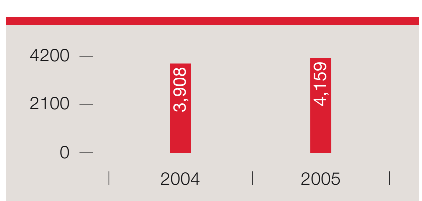

**Net profit per FTE** (in EUR)




**Non-performing loans as % of outstanding loans**




**Employees**
(in FTEs)



| | 2005 Operational highlights | 2006 Focus |
|---|---|---|
| Corporate & Institutional Banking is responsible for the global relationship management of corporate, banking and institutional clients. | Most of our client sectors began to reap the benefits of our wider product offering, which helped them cross-sell financial market products, export and project financing and corporate finance services like IPOs. This further deepened the relationship with our clients and brought them greater added value.<br><br>Successes included the IPOs for Elia, Zetes and TomTom and the placement of share capital for GIMV. Several sizeable loan mandates were also closed in 2005 with Fortis as lead manager.<br><br>At the same time, we focused specifically on developing operations with institutional clients. | Continue to develop in Asia and the US.<br><br>Leverage the acquisition of Disbank in Turkey.<br><br>Expand in targeted emerging markets. |
| Global Markets performs all trading, sales and research activities. | We continued to improve our client services and to add new products to our offering in 2005. These were in areas like structured credit, equity derivatives, energy, carbon banking and CDO structures. We also enhanced our commodity brokerage services in London.<br><br>We further streamlined our research activities, strengthening Fortis's position as a broker in the Benelux region and allowing more effective cross-selling of products and services. The fruits of this included excellent rankings for small and mid-cap equity research in Benelux.<br><br>Our efforts to secure exclusive rights with institutional investors resulted in a clear performance improvement and increased volumes in securities lending and arbitrage. | Go on developing new energy, commodity trading, derivative and other products.<br><br>Further strengthen operations in Asia and North America. |
| Private Equity helps enterprises develop by providing solutions for shareholder transition. The unit also offers structured finance products and a wide variety of integrated financial solutions. | Private Equity experienced healthy growth in its investment portfolio and now manages diversified assets worth in excess of EUR 1 billion. We have been fairly active in buoyant, local buy-out markets, with noteworthy transactions such as Fruits Guzman (Spain), Novy (Belgium) and Sandd (Netherlands). We also significantly expanded our fund-of-funds portfolio.<br><br>Acquisition Finance strongly positioned itself in the Benelux market for mid-caps and larger corporate deals, and we also increased our presence in the French, Spanish, US and UK markets. The unit played a leading role too in transactions involving companies like Wavin, Taminco, Petroplus and Photonis. | Our emphasis in 2006 will be on growth and internationalisation. We will take advantage of the favourable economic outlook and the persistently high level of activity in the private equity markets by carrying out judicious investments and healthy exits.<br><br>Acquisition Finance will consolidate its Benelux foothold and take forward its European geographical expansion. |

Specialised Finance combines expertise in a number of sectors like shipping, commodities and intermodal, and skills such as export and project finance and loan syndications.

**2005 Operational highlights**

With our diversified product portfolio, we are constantly striving to improve our client coverage model by strengthening relationships with our core client base. This in turn allows us to improve our penetration of client niches in sectors where we are among the world leaders, such as shipping, aviation and intermodal, oil and gas and commodity finance, and to increase our market share in products like structured derivatives and trade, export and project finance.

We benefited from our extended product offering by cross-selling corporate finance services like IPOs and financial market products such as foreign exchange and interest rate derivatives. We also achieved a strong increase in commissions from selective product and skill niches including commodity and intermodal finance.

**2006 Focus**

Take the existing expertise within our specialised network and leverage it around the world by offering tailored services.

Enhance global cross-selling by strengthening our international network of teams specialising in loan syndication and export, project and corporate finance.

Expand the Specialised Finance team in Asia to cover oil and gas, aviation and intermodal, and loan syndication expertise.

Global Securities & Funds Solutions offers high-value financial services that support the trading and investment activities of financial professionals.

To anticipate the changing needs of the alternative investment and traditional fund management industry, we have bundled all Fortis's fund services – both onshore and offshore – to form a single unit called Prime Fund Solutions. We offer the fund industry a combination of administration, custody, banking and financing capabilities.

We expanded our global clearing services operations in Asia and the US in 2005. In addition to setting up an office in Singapore, we more than tripled our presence in the US market when we acquired O'Connor & Co. Both developments reflected our goal of simultaneously providing our clients with global reach and with local focus and expertise.

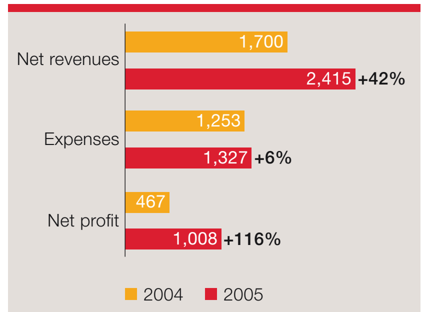
Continue to expand our presence, providing dedicated skills to the investment community. Extend our added-value proposition by further developing prime brokerage services.

Brokerage, Clearing and Custody will take full advantage of the benefits brought by the O'Connor acquisition and will make maximum use of our new clearing membership on the Singapore Exchange.
Expand our product offering into clearing and custody services for retail aggregators.
Maintain the constant focus on our energy clearing product.

## Financial performance

**Results of Merchant Banking**

| (in EUR million) | 2005 | 2004 (pro forma) | change |
|---|---|---|---|
| Total income, net of interest expense | 2,309 | 1,748 | 32% |
| Change in impairments | 106 | (48) | * |
| Net revenues | 2,415 | 1,700 | 42% |
| Expenses | (1,327) | (1,253) | 6% |
| Profit before taxation and minority interests | 1,088 | 447 | * |
| Income tax | (73) | 21 | * |
| Minority interests | 7 | 1 | * |
| Net profit | 1,008 | 467 | * |
| | | | |
| Cost/income ratio | 57.5% | 71.7% | |
| RARORAC | 22% | 11% | |
| Operating leverage | 26.2% | N.A. | |



## Business environment

Although short-term interest rates in Europe showed a slight upward tendency in the second half of the year, long rates remained very low, causing the yield curve to flatten. Volatility in the financial markets was limited compared with previous years. The narrow credit spreads observed in 2004 were even more marked last year, putting further pressure on revenues from traditional credit-related operations. Our financial results did, however, benefit from the positive evolution of value adjustments resulting from improved credit quality. Commodity prices, especially oil and gas, rose throughout most of 2005, reaching record levels. Another of last year's noteworthy features, finally, was the impressive advance staged by the stock markets, as illustrated by the pattern of the Dow Jones EURO STOXX 50.

## Revenues

Our full-year total revenues amounted to EUR 2.3 billion, up an impressive 32% on the back of strong trading results, high capital gains and overall robust commercial activity.

Net interest income declined by 26% in 2005. It suffered from high volatility throughout the year and ultimately fell steeply due to unrealised gains on trading derivatives. Margin erosion, owing to a flat and low yield curve as well as low credit spreads, has started to slow down. Net commissions and fees came down 6%. The decline in net fees at Global Markets was due to higher fees paid to distribution partners. This was only partly offset by an increase in net commissions at Global Securities & Funds Solutions, which benefited from strong business growth. Assets under custody went up 39% in 2005 (to EUR 266 billion), 28% of which came from net new inflow. Funds under administration grew by 14% in 2005 (to EUR 73 billion), more than half of which stemmed from new funds.

The change in impairments amounted to EUR 106 million at the end of 2005. The continued low level of provisions for credit losses reflects the quality of our loan portfolio and the sustained benign credit environment.

## Expenses

Total expenses went up by 6% in 2005. This increase was under control and in line with our strategic plans and underlying business development. Staff expenses rose 18% to EUR 603 million due to provisions for variable compensation and new hirings, investments in upgrading the quality of management, and the technical impact of IFRS reclassification of employee benefits. We had a total of 4,159 FTEs at the end of 2005, up 6% on the year-end 2004 figure.

## Net profit

Net profit for 2005 rose to EUR 1,008 million, more than double the very high figure for 2004. Double-digit growth in net profit was achieved at all operations. Thanks to these soaring profits, RARORAC doubled to 22% in 2005. Enhanced profitability amply compensated for the growth in economic capital, thereby substantially improving the return/risk trade-off.

## Accolades

- Best performer in Benelux equities (*Thomson Extel Survey*, June 2005)
- Global Cash Management passed ISO 9001:2000 audit, resulting in unique cross-border certification in terms of transparency and client information flows for Belgium and the Netherlands
- Shipping Debt Deal of the Year – North America Award for 2005 (*Jane's Transport Finance*, November 2005)
- Project Finance (Asia) Deal of the Year (*Asia Money & Project Finance International*, December 2005)
- Prime Fund Solutions ranked first in 'Funds of Hedge Funds', fourth in 'Percentage Growth', seventh in 'Single Funds' and second overall (*Hedge Fund Manager*, November 2005)
- Global Clearing & Custody obtained SAS 70 Type I certification, giving its clients firmer guarantees about the nature and effectiveness of its business quality processes
- Best Soft Commodity Bank (*Trade & Forfaiting Review*, October 2005)
- Fortis 'Best in Class' for approach to climate change (Carbon Disclosure Project survey report); we were also included in the 'Climate Leadership Index'
- Number one 'RQ Consensus Beater' in the Euronext Zone (*AQ Research Yearbook*, 2005)

Did you know that Fortis... has been providing Braille account statements to hundreds of visually handicapped customers in Belgium for nearly 25 years? Content, frequency and cost are the same as standard statements.

# Commercial & Private Banking

## Business profile

Commercial Banking wants to be the partner of choice for European-oriented medium-sized enterprises. We offer value-added solutions to these customers via our integrated European network of Business Centres. Our unique 'Act as One' approach means they can arrange all their financial services through a single contact: the Global Relationship Manager.

Private Banking provides integrated, worldwide asset and liability management solutions to private clients, their businesses and their advisors.

Bringing these entities together adds value in two ways. Firstly, it allows Fortis to operate as a European bank for enterprise and entrepreneur alike, differentiating us from our competitors. At the same time, the combination enhances our profitability by exploiting synergies and leveraging Commercial Banking and Private Banking's respective customer bases and product offerings.

## Business strategy

The Commercial & Private Banking business aims to reap the benefits of a combined, global approach to these two closely related markets. Close cooperation will enable us to fully exploit our unique and successful 'Act as One' model, guaranteeing the same level of service and range of cross-border solutions for customers throughout Europe. That approach is also reflected in the 'Fortis House' concept, in which Commercial Banking and Private Banking personnel will share offices.

- We will continue to expand our European Business Centre network between 2005 and 2009. The intention is to open seven new BCs a year, three of them in new countries. Commercial Banking and Private Banking will continue to pursue their individual growth paths while working together closely in the steadily growing multi-local customer segment.
- A comprehensive package of specialised financial services in areas like leasing, factoring, trust and global trade services will drive our efforts to maintain our leading market positions.
- We will strengthen our customer teams while using a single marketing diagnostics database to track new opportunities. Our back offices will gradually be integrated.
- Cost efficiency will be a constant focus. We will streamline our sales processes, extend our single IT platform to all Business Centres, centralise back offices and share premises where appropriate.

**Key performance indicators**

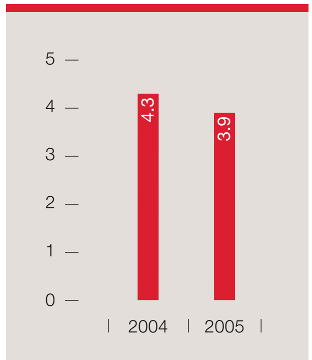
| | **Target for 2005–09** (CAGR) | | **2005 performance** |
|---|---|---|---|
| Total revenues | 7–9% | ✓ | 9% |
| Expenses | 5–7% | | 16% |
| Net profit | >10% | | -6% |

## Ambition

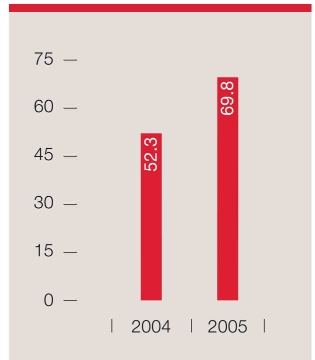
We want Fortis to be Europe's leading cross-border bank serving both enterprises *and* entrepreneurs.

**Employees**
(in FTEs)

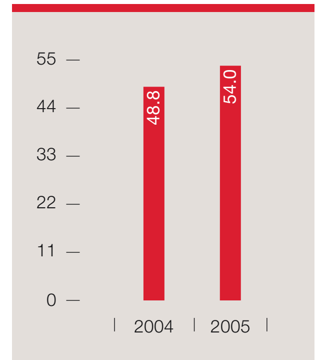

**Non-performing loans as % of outstanding loans**




**Funds under management**
(in EUR billion)




**Outstanding loans to customers** (in EUR billion)




## 2005 Operational highlights

Commercial Banking aims to be the partner of choice for European-oriented medium-sized enterprises by offering value-added solutions through a cohesive network of Business Centres.

The acquisition of Disbank allowed us to open twelve new Fortis Business Centres (BCs) in Turkey. We also opened nine BCs in other countries, bringing the total to 114 in Europe and two in China. Four of them (Zurich, Vienna, Prague and Budapest) were opened in new countries, the others (Rennes, Florence, Toulouse, Guangzhou and Shanghai) in countries where we were already present.

The ‘Act as One’ approach took concrete shape in the set-up of Fortis Houses in which Relationship Managers from Commercial Banking, Private Banking and Specialised Financial Services share the same premises. Bringing together all operations in one location is convenient for our clients and creates cost savings, boosts efficiency and enhances our commercial opportunities. Fortis Houses have been set up at locations across the Netherlands, Belgium, France, Spain, Switzerland and Asia.

## 2006 Focus

Most of our Commercial Banking operations will be Fortis rebranded as part of our move towards one strong brand.

We will further implement the ‘Fortis House’ concept.

We will roll out our network model and open seven new Business Centres, including three in new countries.

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Private Banking offers integrated, worldwide asset and liability management solutions to private customers, their businesses and their advisors.

The acquisition of Dryden Wealth Management gives us a presence in several new growth markets including the UK, Monaco and Taiwan. In addition, a strategic alliance with ICICI Bank provides us with access to Indian expatriates. The integration of Dryden group, which also brought a substantial increase in funds under management in the Netherlands and Asia, is progressing rapidly and smoothly.

We were granted a private banking licence in Dubai (UAE), enabling us to open a Fortis office with a team of specialists.

Private Banking launched operations in Turkey and Poland, while reinforcing our presence in Spain and France. This allowed us to further develop our footprint in the private banking market.

All Private Banking activities will be rebranded as Fortis in March 2006. In the Netherlands it will be Fortis MeesPierson.

Our presence in Dubai will reinforce our reach worldwide.

Specialised Financial Services (SFS) consist of leasing, commercial finance, global trade services, trust and corporate services. They are an integral part of the Commercial & Private Banking business, but are made up of separate entities with different internal and external distribution channels and client bases.

**2005 Operational highlights**

The acquisition of Atradius Factoring, with operations in Denmark, Sweden, France, Germany and Italy, has moved Fortis into the top five European commercial finance players. Fortis Commercial Finance also set up a greenfield operation in Spain.

Fortis Lease consolidated its position in the top five European cross-border leasing companies by acquiring Austria Finanza, Austrolease and FLIF. Fortis Lease also launched operations in Switzerland, Portugal and the Czech Republic. A European vendor leasing platform was created in anticipation of strong growth in the vendor lease market. The development of yacht, private jet and art leasing is a good example of cross-fertilisation between product development skills.

Fortis Intertrust, world leader in trust and corporate services, opened offices in Russia, Poland and Dubai.

**2006 Focus**

Our service offering will continue to be developed, including dedicated services for the enterprise and entrepreneur and combined skills for specific company segments (e.g. port and logistics, coffee producers/traders and machine-tool manufacturers).

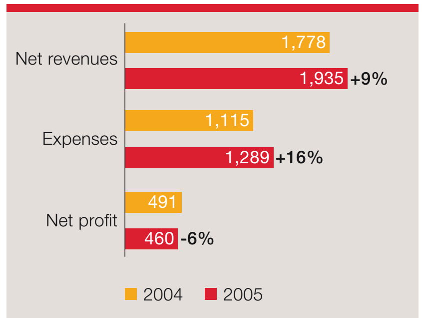
A greenfield operation for specialised financial services will be launched in Poland. Similar activities will commence in Austria and Hungary.

MeesPierson Intertrust will be rebranded as Fortis Intertrust.

## Financial performance

**Results of Commercial & Private Banking**

| (in EUR million) | 2005 | 2004 (pro forma) | change |
|---|---|---|---|
| Total income, net of interest expense | 2,088 | 1,842 | 13% |
| Change in impairments | (153) | (64) | * |
| Net revenues | 1,935 | 1,778 | 9% |
| Expenses | (1,289) | (1,115) | 16% |
| Profit before taxation and minority interests | 646 | 663 | -2% |
| Income tax | (186) | (171) | 9% |
| Minority interests | 0 | 1 | -57% |
| Net profit | 460 | 491 | -6% |
| | | | |
| Cost/income ratio | 61.7% | 60.5% | |
| RARORAC | 18% | 19% | |
| Operating leverage | -2.3% | N.A. | |
| Funds under management (in EUR billion, year-end) | 69.8 | 52.3 | 33% |




### Business environment

The provision of financial services to mid-sized, internationally active companies is a growing and profitable market. Commercial Banking has been focusing on this segment for seven years now, giving us a first mover advantage thanks to our unique cross-border approach, integrated skills and European network. Low overall burn rates in the ME segment, meanwhile, are generating intense price competition in several countries. Commercial Banking's international network and ability to offer asset-based finance solutions are important strengths when it comes to maintaining margins in this environment.

Our competitors – still largely organised on a country basis – are only just embarking on the cross-border integration that the market demands.

However, as that particular window of opportunity began to close, we acted to maintain our competitive advantage by bringing together Fortis's Commercial and Private Banking operations. Private banking is a profitable but volatile industry offering strong growth potential – only half of HNWI wealth is currently managed by private banks and the economic climate is improving.

Business owners are the most important source of wealth creation. By combining Commercial and Private Banking, we have created a structural platform that will enable us to service the market for the enterprise *and* the entrepreneur.

### Revenues

Our total revenues increased by 13% in 2005 to EUR 2,088 million, fuelled mainly by 10% organic growth and selective add-on acquisitions. Net interest income advanced 10% to EUR 1,030 million on the back of strong revenue growth in asset-backed financing and treasury-related products. This is in line with the 11% loan growth and 10% increase in average risk-weighted commitments.

The traditional credit portfolio experienced some margin erosion. Meanwhile, our broad range of services, reinforced by selective acquisitions and the expansion of our Business Centre network, together generated both more frequent and more profitable sophisticated deals. This demonstrates our capacity to combine solutions that appropriately address the needs of our customers.

Net commissions and fees amounted to EUR 702 million, up 14%. This solid growth was generated by higher funds under management, the successful launch of new products, a rise in the number of trust structures under administration, and an increase in cross-selling and add-on acquisitions.

The change in impairments came to EUR 153 million, up from the exceptionally low level of EUR 65 million in 2004.

### Expenses

Total expenses rose 16% to EUR 1,289 million. These included not only investments in our network, service offering and staff, but also non-recurring charges related to the restructuring of Dryden Wealth Management (EUR 23 million) and costs of the management quality upgrade (EUR 28 million).

We had a total of 6,119 FTEs at the end of 2005, up 13% (or 700 FTEs) due to the hiring of 325 FTEs and the integration of staff coming from Dryden Wealth Management and Atradius Factoring.

### Net profit

With a bigger change in impairments, higher tax rate, non-recurring charges and investments for growth, our total net profit for 2005 slipped to EUR 460 million, down 6% on 2004. We nevertheless view the underlying operational performance in 2005 as favourable and in line with our 2005–09 growth plan. RARORAC decreased by 1% over 2005 to 18% as the 11% growth in economic capital (to EUR 2.5 billion), reflecting higher business volumes, was not entirely balanced by the 2% growth in return.

### Funds under management

Funds under management at Private Banking increased by 33% to EUR 69.8 billion. The additional EUR 17.5 billion can be broken down into EUR 3.3 billion from net intake (6% growth), EUR 8.9 billion from acquisitions (mainly Dryden Wealth Management) and EUR 5.3 billion in market performance.

**Accolades**

- Fortis Commercial Finance ranked in the top five best factoring banks (*Trade Finance Magazine*, June 2005)
- Fortis's private banking business (MeesPierson) ranked 11th among the best global private bankers and 7th in Western Europe. We were also placed in the Western European top three for philanthropy and trust services (*Euromoney*, January 2006)

# Insurance Belgium

## Business profile
Insurance Belgium is made up of Fortis AG, which sells its products via independent intermediaries, and FB Insurance, which works through Fortis bank branches and the Belgian Post Office Bank, Banque de La Poste. The business supplies a comprehensive range of life and non-life policies to private individuals and to small and medium-sized enterprises (SMEs). The group life, healthcare and pension offering for large enterprises is delivered by the unit Fortis Employee Benefits.

## Business strategy
We will reinforce our leadership in the two channels by merging Fortis AG and FB Insurance in 2006 to form a single legal entity that will be the largest insurer in Belgium. Activities that are not specific to either the banking or broker channel will be combined, so as to create cost synergies, while channel-specific operations will be kept separate. We aim to stimulate profitable growth by:

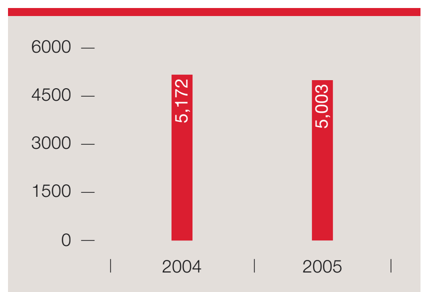
- growing revenues through both channels by continuing to roll out innovative products;
- further enhancing our already high levels of customer and distributor satisfaction;
- extending our distribution alliance with Banque de La Poste to insurance products;
- reducing costs by combining IT investments and sharing operational and support functions.

**Key performance indicators**

| | **Target for 2005–09** (CAGR) | | **2005 performance** |
|---|---|---|---|
| Gross inflow Life | 7–9% | ✓ | 23% |
| Gross written premiums Non-life | 6–8% | ✓ | 6% |
| Costs | 2–2.5% | ✓ | 1% |
| Net profit | 4–6% | | 3% |

## Ambition
We aim to be the leading insurer in Belgium, as measured by customer and distributor satisfaction, market share and profitability.

**Employees** (in FTEs)



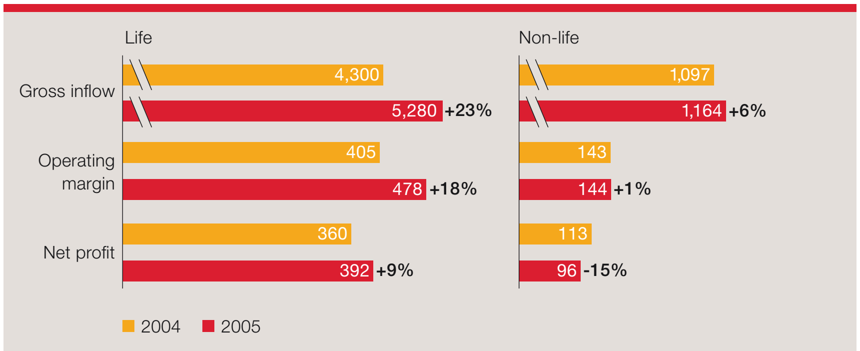

Did you know that Fortis... is firmly committed to the community? Our Fortis Foundations donate over EUR 3 million a year to a whole range of initiatives and help our employees to do volunteer work.

| | 2005 Operational highlights | 2006 Focus |
|---|---|---|
| Fortis AG operates through intermediaries to supply a comprehensive range of life and non-life products to retail customers and SMEs. | Fortis AG constantly invests in raising its standard of service. That's partly why we were voted 'Best Composite Insurer' in the Belgian market for the third year in a row in an independent survey (ICMA) of over 600 insurance brokers.<br><br>Fortis AG also became the first financial company in Belgium to obtain Level 2 certification from Capability Maturity Model Integration (CMMI). This has enabled us to enhance customer and distributor satisfaction thanks to faster processing, better controls and a reduced error rate. | Exploit strong position in broker distribution channel to seize life and non-life growth opportunities.<br><br>Concentrate on profitable growth by deepening relationships with growth-oriented brokers showing good technical profitability. |
| FB Insurance offers insurance products via Fortis's branch network and Banque de La Poste. | Several successful commercial campaigns targeting innovative life products were implemented in 2005.<br><br>A ten-year distribution agreement with Banque de La Poste for insurance products came into operation in March 2005 with the launch of structured unit-linked products alongside traditional pension contracts. | Pursue growth by raising penetration and cross-selling rate of life and non-life products, and by leveraging Banque de La Poste's distribution network.<br><br>Improving customer and staff satisfaction is an ongoing priority. |
| Fortis Employee Benefits provides group life, pension and healthcare policies to large enterprises. | Fortis Employee Benefits strengthened its position in the market in 2005 by signing healthcare contracts with the Flemish Regional Authority, the Belgian federal government, the City of Antwerp and several large corporates. We have virtually doubled our healthcare portfolio in the past two years from 400,000 affiliates to over 700,000.<br><br>In group life and pensions, new offerings like 'e-volulife' and our Ascento post-retirement product continue to grow strongly. | Seize opportunities to grow our group healthcare lines and sector pension plans.<br><br>Further develop our employee benefits offering using innovation as a driver.<br><br>Further optimise our IT and back-office facilities to boost our competitive cost advantage. |
| Integration project | Preparations for the integration of Fortis AG and FB Insurance approached completion in 2005. While our market strategy will remain channel-specific, we will achieve synergies by sharing IT and support functions.<br><br>A shared reporting and asset management platform came into operation at the beginning of 2006. | Fortis AG and FB Insurance will be merged to form a single legal entity by mid-2006.<br><br>Further integration work will follow, with the staff of both organisations physically moving to the shared locations. |

## Financial performance

**Results of Insurance Belgium**

| (in EUR million) | 2005 | 2004 (pro forma) | change |
|---|---|---|---|
| Gross inflow | | | |
| • Life | 5,280 | 4,300 | 23% |
| • Non-life | 1,164 | 1,097 | 6% |
| Operating costs | (348) | (344) | 1% |
| Technical result | | | |
| • Life | 398 | 335 | 19% |
| • Non-life | 139 | 127 | 9% |
| Operating margin | | | |
| • Life | 478 | 405 | 18% |
| • Non-life | 144 | 143 | 1% |
| Profit before taxation and minority interests | 685 | 665 | 3% |
| Income tax | (190) | (187) | 2% |
| Minority interests | 7 | 6 | 23% |
| Net profit | 488 | 472 | 3% |
| | | | |
| Operating leverage | 7.5% | N.A. | |
| Value added by new life business | 164 | 134 | 22% |
| Combined ratio: | | | |
| • Property & Casualty | 95% | 94% | |
| • Accident & Health | 103% | 111% | |
| • Total Non-life | 97% | 98% | |




### Business environment

The Belgian non-life market moved back into overall profitability last year. The positive trend reflected a number of factors, including the effect of earlier rate increases and a declining claims frequency, especially in motor insurance. Results were also helped by the fact that there were no severe storms in 2005. Non-life premium growth was 4%, which was in line with the rise in GDP. Fortis was one of the best performers in the Belgian market with overall premium growth of 6%.

Growth in premium income and funds under management continued to accelerate, especially at individual life. This good performance was confined to a small group of companies – with Fortis among them – that have bank distribution capacity and the necessary scale to ensure cost-efficiency in a sector where low interest rates are exerting downward pressure on profitability.

### Gross premiums

Gross inflow at Life grew 23% to EUR 5,280 million. Both the banking and broker distribution channels performed well, contributing two thirds and one third to the increase in gross inflow respectively. The banking channel saw gross inflow rise 27% to EUR 3,148 million, driven by several commercial campaigns at Fortis Bank. The broker channel also posted strong growth of 19% to EUR 2,131 million. Both channels benefited from the anticipation by customers of tax changes that came into effect as of January 2006.

Gross written premiums at Non-life went up 6% to EUR 1,164 million. All product lines (Motor, Fire, Accident & Health and Other) contributed to this increase which, according to the most recent data, was 2% ahead of growth in the Belgian market as a whole. The group healthcare market was particularly successful, as a number of large contracts were added during the year in both the corporate and public service segments.

### Operating margin

Our total operating margin increased 13% to EUR 621 million, which can be fully attributed to the 18% rise in the Life operating margin as a result of higher volumes, investment returns and capital gains. The operating margin at Non-life was stable at EUR 144 million despite lower capital gains recorded in the year under review. The technical result advanced 9% to EUR 139 million as the combined ratio for 2005 improved to 97.1% from 98.4% in 2004.

### Net profit

We achieved very satisfying overall results in 2005, benefiting from our market leadership and multi-channel distribution model. Net profit went up 3% to EUR 488 million from EUR 472 million in 2004. Operating leverage (7.5%) was strong due to a 13% increase in operating margin combined with virtually flat costs, excluding investments in upgrading the quality of management. We had 3% fewer FTEs at the end of 2005, bringing the total to 5,003 (3,781 excluding employees of Fortis Real Estate).

**Accolades**

- Fund Awards Belgium 2005 for Fortis AG's 'Top Profit' funds, in recognition of their unbeaten performance over three years (Standard & Poor's Micropal survey, March 2005)
- Innovation Award for a new motor product that offers no-claims protection in the event of an accident (Belgian Non-life Insurance Awards, April 2005)
- Insurance Award for Fortis AG's 'Top Profit' and Brokers' Award for *Top Rendement Invest* (Belgian Life Insurance Awards, October 2005)
- Most Innovative Product Award for FB Insurance's 'Property & Benefit Plan' (Belgian Life Insurance Awards, October 2005)

Did you know that Fortis... is a top ten fund manager in China through Fortis Haitong Investment Management? Which is itself one of the three leading Sino-foreign joint ventures, with a market share of over 3%.

# Insurance Netherlands

## Business profile

Insurance Netherlands consists of Fortis ASR, a large generalist insurer, and four specialists. Our labels distribute primarily via independent insurance brokers and, to a lesser extent, through tied agents, fee consultants and Fortis's banking businesses. Fortis ASR offers individuals and companies a wide range of life, non-life, healthcare and disability insurance, together with mortgage and savings products.

## Business strategy

The Dutch financial services sector is undergoing fundamental changes in response to new legislation. This will form the starting point for our business strategy, the central themes of which will be our customers' needs, along with innovation, distribution, efficiency and scale.

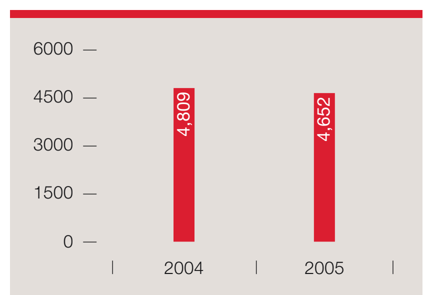
## Ambition

We want to remain the pre-eminent broker-based insurer, anchoring Fortis's retail expansion in the Netherlands. We also intend to respond to consumer demand for alternative forms of distribution.

**Key performance indicators**

| | **Target for 2005–09** (CAGR) | **2005 performance** |
|---|---|---|
| Gross inflow Life | 2–4% | ✓ 4% |
| Gross written premiums Non-life | 4–6% | -6% |
| Costs | 0% | 8% |
| Net profit | 4–6% | ✓ 19% |

**Employees**
(in FTEs)




## Solidarity Days

**Fortis volunteers are never happier than when they're giving something back to the community. One weekend in spring 2005, they turned up at 'The Ark' – a day-care centre for disabled people in Brussels, which offers handicrafts, cooking and sport. The volunteers helped redecorate the centre to make it an even brighter and more pleasant place to be.**

**Fortis people take part in 'Solidarity Days' like this – both large and small scale – throughout the year.**

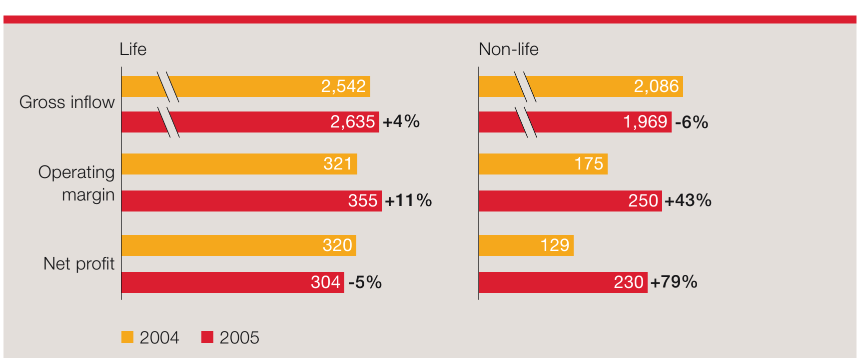
| | 2005 Operational highlights | 2006 Focus |
|---|---|---|
| Fortis ASR offers individuals and companies a wide range of life, non-life, mortgage and savings products, primarily via independent brokers. | Our 'back to basics' policy, in which we have intensified our focus on operational profitability, has borne fruit sooner than we expected, especially at Non-life. Apart from the requirement for higher product profitability, this success reflects stricter acceptance criteria and tighter control of claim costs. Our net combined ratio consequently improved from 97.8% to 92.2%, while our competitive position progressed as intended.<br><br>Although customers had the legal option of terminating their contracts in response to the integration process, the number of cancellations was very limited and considerably lower than market average.<br><br>Fortis ASR scored well once again – especially compared with its peers – in the independent broker survey carried out annually into the performance of insurance companies.<br><br>Our media campaign to launch the new Fortis ASR brand came in for a lot of positive comment. Brand recognition had already reached 65% in January 2006. | We will tighten our commercial focus after concentrating for two years on the integration process.<br><br>The Dutch Financial Services Act, which came into effect on 1 January 2006, should improve the dynamics of the broker market.<br><br>The needs of intermediaries and consumers are evolving rapidly and fundamentally. We will continue to meet those needs by reformulating our strategy around the key themes of distribution, innovation and scale. |
| Specialist insurers<br>De Amersfoortse (income protection) | A great deal of preparatory work had to be done in the run-up to the changes to the Dutch social security system that came into effect on 1 January 2006. De Amersfoortse scored highly once again in terms of customer satisfaction. Targeted cross-selling of insurance packages, meanwhile, proved even more successful than anticipated. | De Amersfoortse will continue to respond to changes in the area of disability insurance. In healthcare, the challenge will be to keep pace in the competitive battle, without buying in structural losses. |
| Falcon Life (unit-linked products) | Falcon Life introduced a new calculation module for its back-office systems. | Back-office flexibility will be further enhanced. |
| Europeesche Verzekeringen (travel and leisure cover) | Product innovation in the travel and leisure sectors combined with stringent cost control had a positive impact on results. | Additional internet applications will be introduced to enable us to do business electronically with both distributors and consumers. |
| Ardanta (funeral policies) | A web module was developed for intermediaries, enabling customers to arrange funeral cover directly via the intermediary's own website. | E-business will be developed further. |

| | 2005 Operational highlights | 2006 Focus |
|---|---|---|
| Integration project | The three insurers AMEV, Stad Rotterdam and Woudsend merged in October 2005 to form the new generalist insurer Fortis ASR.<br><br>Efficiency is being enhanced through the integration of back-office (life and non-life administration), front-office (account management) and support functions (human resources, information technology, payments).<br><br>The number of FTEs at 2005 year-end was 4,652, down 3% on the previous year. Some three-quarters of the planned 750 FTE reduction has now been realised, in keeping with the initial timeframe. | Phase out legacy IT systems at Life and Non-life. |

## Financial performance

**Results of Insurance Netherlands**

| (in EUR million) | 2005 | 2004 (pro forma) | change |
|---|---|---|---|
| Gross inflow | | | |
| • Life | 2,635 | 2,542 | 4% |
| • Non-life | 1,969 | 2,086 | -6% |
| Operating costs | (556) | (514) | 8% |
| Technical result | | | |
| • Life | 293 | 263 | 12% |
| • Non-life | 223 | 165 | 35% |
| Operating margin | | | |
| • Life | 355 | 321 | 11% |
| • Non-life | 250 | 175 | 43% |
| Profit before taxation and minority interests | 751 | 610 | 23% |
| Income tax | (215) | (157) | 36% |
| Minority interests | 3 | 4 | -19% |
| Net profit | 533 | 449 | 19% |
| | | | |
| Operating leverage | 6.9% | N.A. | |
| Value added by new life business | 45 | 55 | -17% |
| Combined ratio: | | | |
| • Property & Casualty | 95% | 103% | |
| • Accident & Health | 89% | 91% | |
| • Total Non-life | 92% | 98% | |



## Business environment

Shifts in the Dutch insurance market are affecting the way insurers operate and influencing the overall structure of the industry. Following years of preparation, four new laws came into force on 1 January 2006 that will have a substantial impact on the insurance sector:

- A revised Financial Services Act imposes new and tighter regulations on all financial services providers, including intermediaries, insurers and banks. The new rules cover areas like integrity, professional competence, solvency, information provision, duty of care and transparency.
- A new health insurance system entitling all Dutch citizens to basic cover.
- New rules on incapacity benefits that will make it harder to claim disability payments, while partly shifting implementation of the system to private insurers.
- A new tax regime for early retirement designed to increase labour market participation among older workers.

The full implications of these new rules will become clearer in 2006, including the opportunities they create for financial services providers.

## Gross premiums

Gross written premiums at Life increased 4% to EUR 2,635 million in a competitive market. Individual life premiums grew 2% to EUR 2,212 million on the back of higher sales in unit-linked products. Group Life went up 14% to EUR 423 million, driven by two major new accounts in the fourth quarter, enabling us to further penetrate this market segment.

Gross written premiums at Non-life came to EUR 1,969 million (EUR 2,086 million in 2004). Gross written premiums at Accident & Health decreased from EUR 1,064 million to EUR 993 million. This decline was largely caused by premium refunds of accident and health insurance products due to the new long-term disability act making selected insurance products written in 2004 and 2005 obsolete. Gross written Motor premiums dropped from EUR 477 million to EUR 434 million, mainly due to the profit pricing strategy and rationalisation of parts of the authorised agents portfolio. Gross written Fire premiums remained stable.

## Operating margin

Our Life operating margin advanced to EUR 355 million (+11%). In a low interest rate environment, investment margins remained stable although margins of new investments are under pressure. To ensure future profitability, we transacted a landmark deal with the Dutch government concerning 2,300 hectares of land – the largest land transaction ever for Fortis – as part of our strategy to improve the effectiveness of the investment portfolio.

The Non-life operating margin rose by 43% to EUR 250 million. This rise was chiefly attributable to an increase in the technical result of the Property & Casualty portfolio thanks to an improved claims ratio to 53% (2004: 59%). Motor, Fire and Other Lines contributed to this good result with very favourable combined ratios. Accident & Health surpassed the previous year's strong performance, resulting in a combined ratio of 89% (2004: 91%).

## Net profit

Despite the challenging market environment, we increased our net profit by 19% to EUR 533 million in 2005 (2004: EUR 449 million). We achieved this on the back of a steep rise in net profit at Non-life, while at the same time solidifying our market position.

### Accolades

- Europeesche named 'Best Travel Insurance Company' in the Netherlands for the ninth year in a row (voting by peers at the 'Vakantiebeurs' trade fair in Utrecht, January 2006)

# Insurance International

## Business profile

Insurance International leverages our existing skills in distribution, operations and products and has established a presence in selected European and Asian markets. In Luxembourg, we principally offer life insurance, which we distribute through brokers and bank alliances. We distribute non-life products in the UK via an extensive broker network, affinity groups and direct channels. In France, our life insurance products are sold via intermediaries and a network of Fortis agents. Fortis has successful joint ventures with strong local banking partners in Spain, Portugal and Malaysia. In Thailand and China, meanwhile, we have set up joint ventures aimed not only at the banking channel, but also at alternative channels like agents. Fortis Corporate Insurance offers non-life products to medium-sized and larger corporates, primarily in the Benelux region.

## Business strategy

Insurance International will increase its revenues in existing and – where appropriate – new markets. The focus will be on distribution via multiple channels (multi-channel strategy) and forward distribution integration. The development of new products will be tailored to specific countries and customer groups, and will leverage existing knowledge and skills within Fortis's insurance companies.

When expanding into new markets, we will focus on life insurance and pension products, while selectively pursuing non-life in those countries where the maturity or specific character of the market warrants it. We enter new markets through both joint ventures and full ownership. When doing so via joint ventures, we apply a rigorous set of criteria before selecting our partner. Our aim is to achieve management control with effective management representation in key areas.

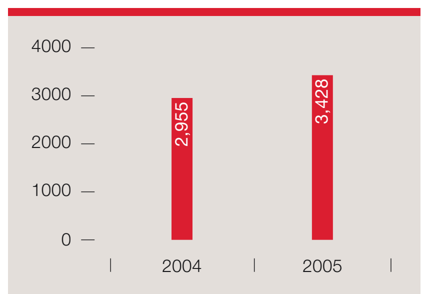
**Key performance indicators**

| | **Target for 2005–09** (CAGR) | | **2005 performance** |
|---|---|---|---|
| Gross inflow Life | 15–20% | ✓ | 192% |
| Gross written premiums Non-life | 5–10% | ✓ | 15% |
| Costs | 12–15% | | 41% |
| Net profit | 15–20% | ✓ | 57% |

## Ambition

We aim to further accelerate growth at our business by building on our existing market position. At the same time, we will pursue selected new product/market opportunities in Europe and Asia by way of organic expansion, acquisitions and strategic partnerships.

**Employees**
(in FTEs)



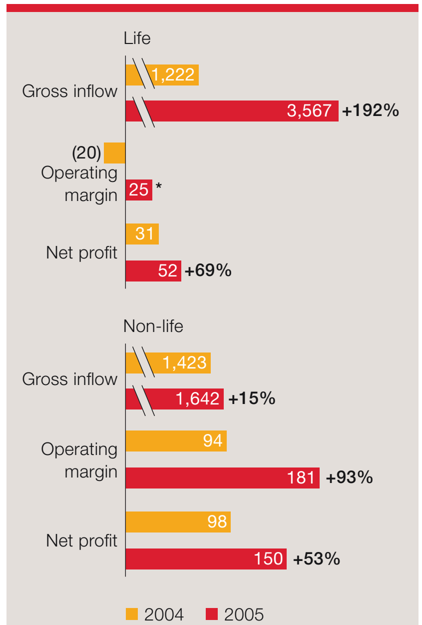
| | 2005 Operational highlights | 2006 Focus |
|---|---|---|
| Europe, outside Benelux | We continue to deliver strong results in the United Kingdom. These are driven by solid margins across the Fortis Insurance Ltd. product range and by strong sales performance at RIAS – our wholly owned personal lines intermediary specialising in the over-50s market. Fortis Insurance Ltd. increased its share of the UK private car insurance market, lifting it from fourth to third place with over 1.37 million vehicles insured. We also extended our product and distribution range in the UK, thanks in part to the acquisition of the personal lines insurance solutions provider OutRight.<br><br>Gross inflow at Fortis Assurances in France rose 10% in 2005 to EUR 395 million, thanks to improved performance on the part of the broker network and higher productivity from the direct sales force.<br><br>CaiFor in Spain performed very well, as witnessed by increases in gross inflow and net profit. Premiums rose 4% at Life and 22% at Non-life. Funds under management rose above EUR 24 billion. CaiFor currently provides employee benefits solutions (under the 'VidaCaixa Previsión Social' brand) to over 8,000 large and medium-sized enterprises, underscoring its leading role in group life and pensions.<br><br>In Portugal, Millenniumbcp Fortis saw gross inflow of EUR 2,144 million in its first year of operation. This was driven primarily by a number of successful unit-linked and savings product campaigns run in collaboration with Millennium BCP. | We will continue to build our organisation by focusing on elements like managing the non-life insurance cycle and the impact of interest rates on the life environment, developing new products, ongoing skill and knowledge transfer between units and entering new markets.<br><br>We will also integrate the acquisitions completed in 2005 and further develop and leverage OutRight's affinity group skills. |
| Benelux | Benelux-based Fortis Corporate Insurance (FCI) continued to perform very well. Net income more than doubled compared with 2004. Fitch Ratings assigned the unit a robust A+ financial rating in September.<br><br>Our Luxembourg operations are channelled via Fortis's own banking network and, thanks to the European Directive on Freedom of Services, a number of third-party providers as well. Total funds under management grew to EUR 3.9 billion. | In Benelux, FCI will pursue further growth by continuing to leverage its existing skills and markets, in spite of the expected less favourable claims environment.<br><br>In Luxembourg, we will use bancassurance and the legal framework created by the Freedom of Services Directive to go on growing our operations. |
| Asia | Taiping Life in China reported total gross inflow (calculated on a 100% basis) of EUR 768 million, an increase of 19% despite stiffer competition from banking products (higher deposit rates). Taiping's specialist pension subsidiary – one of China's first – was granted Trustee and Investment Management licences for the Chinese enterprise annuity business. | The focus for Asia will be on broadening distribution channels (bancassurance) and developing innovative products to anticipate the increasing need for savings, especially on the part of affluent clients. |

| | 2005 Operational highlights | 2006 Focus |
|---|---|---|
| Asia (continued) | In Malaysia, Mayban Fortis acquired 74.24% of Malaysia National Insurance Holdings (MNIH) at 2005 year-end. This stake rose to 98.84% in March 2006. MNIH is a prominent insurer that has enabled Mayban Fortis to evolve into a leading multi-channel operator. Gross inflow at Mayban Fortis was EUR 354 million (on a 100% basis) in 2005, 20% higher than in 2004.<br><br>Muang Thai-Fortis in Thailand saw its gross inflow rise to EUR 202 million (on a 100% basis). Muang Thai Life achieved the highest annualised new premium growth rate in the market (on a year-to-year basis) in 2005, thanks to its multi-channel distribution network (agency sales, bancassurance and affinity group marketing). Our joint venture partner, Kasikorn Bank, now has more than 70 newly-trained insurance sales specialists, which paid off in 2005 as our bancassurance sales soared 110% compared with the previous 12 months. | We also aim to integrate MNIH and to enter selected new markets. |

## Financial performance

**Results of Insurance International**

| (in EUR million) | 2005 | 2004 (pro forma) | change |
|---|---|---|---|
| Gross inflow | | | |
| • Life | 3,567 | 1,222 | * |
| • Non-life | 1,642 | 1,423 | 15% |
| Operating costs | (353) | (250) | 41% |
| Technical result | | | |
| • Life | 0 | (21) | * |
| • Non-life | 175 | 97 | 80% |
| Operating margin | | | |
| • Life | 25 | (20) | * |
| • Non-life | 181 | 94 | 93% |
| Profit before taxation and minority interests | 295 | 165 | 79% |
| Income tax | (69) | (36) | 88% |
| Minority interests | 24 | 0 | * |
| Net profit | 202 | 129 | 57% |
| | | | |
| Operating leverage | 31.6% | N.A. | |
| Value added by new life business | 91 | 28 | * |
| Combined ratio: | | | |
| • Property & Casualty | 101% | 102% | |
| • Accident & Health | 97% | 95% | |
| • Total Non-life | 100% | 102% | |




### Business environment

The non-life environment in Europe has been favourable recently, which may lead to pricing pressure as new players are attracted to the market. The challenge is to maintain positive underwriting results, while at the same time holding on to existing market shares. Life insurance is growing steadily and is likely to go on doing so because of the ageing population, especially in countries with a high dependency on state pensions.

Brokers and agents remain the dominant channels in some countries. However, in others – the UK in particular – new distribution channels are emerging, such as the internet, affinity marketing and brandassurance. Straightforward life and non-life products can be readily distributed via these new channels, whereas more complex ones will probably continue to rely on conventional distribution. Insurance International's distribution and product mix might also change in response to European regulatory harmonisation (Solvency II, for instance), tax changes and shifts in consumer behaviour.

The life sector in Asia continues to develop at double-digit rates in most markets. Although bancassurance has become the dominant distribution channel in some areas, the agency channel is the largest distributor of life products. Companies pursuing a multi-channel distribution strategy should benefit from growth in bancassurance and new channels like the internet.

### Gross premiums

Total gross inflow at the fully consolidated life companies in Portugal, France and Luxembourg increased from EUR 1,222 million to EUR 3,567 million, thanks to Millenniumbcp Fortis (EUR 1,997 million) and the continued good sales performance of Fortis Luxembourg. Total gross inflow at the non-consolidated life companies in Spain, Malaysia, China and Thailand advanced from EUR 2,744 million (on a 100% basis) to EUR 3,080 million (+12%), as a result of group sales at CaiFor (Spain) and overall higher sales in the Asian region. Operating margin in Life improved from a EUR 20 million loss in 2004 to a EUR 25 million gain in 2005.

Gross written premiums for the consolidated non-life companies in the UK, Portugal and Luxembourg as well as Fortis Corporate Insurance climbed 15%, from EUR 1,423 million in 2004 to EUR 1,642 million in 2005, partly driven by Millenniumbcp Fortis. Gross written premiums for the non-consolidated non-life companies in Spain, Malaysia and Thailand advanced 28% (on a 100% basis), from EUR 184 million in 2004 to EUR 236 million in 2005. The biggest contributors were CaiFor and Muang Thai-Fortis. Operating margin in Non-life nearly doubled to EUR 181 million.

### Net profit

Insurance International had an excellent year, with net profit advancing 57%, from EUR 129 million to EUR 202 million. We achieved these outstanding results mainly on the back of extremely favourable results at Non-life (FCI and Fortis UK), the return to profitability of the French operations and the contribution of Millenniumbcp Fortis.

### Accolades

- Fortis Corporate Insurance picked up an excellent A+ (Strong) financial rating from Fitch, confirming its outstanding track record in fulfilling its contractual obligations.
- Fortis Insurance Ltd. (UK): Motor Insurer of the Year; winner in the 'Claims' category; highly commended in 'Personal and Commercial Lines' (Insurance Times Awards, December 2005).
- RIAS: Best Home Insurance Provider (Guardian and Observer Consumer Finance Awards, October 2005), for the second year running.
- K. Sara Lamsam, the 35-year old President of Muang Thai Life Assurance, received the prestigious Young ASEAN Manager of the Year award at the fifth ASEAN Insurance Congress.

**Our insurance joint ventures**

| Country | Company | Fortis stake | Market positions | Acquired in |
|---|---|---|---|---|
| Portugal | Millenniumbcp Fortis | 51% | No. 1 (22% market share) with access to large Millennium BCP bank network | January 2005 |
| Spain | CaiFor | Life 40%<br>Non-life 60% | Market leader with access to large "la Caixa" network | December 1992 |
| China | Taiping Life | 24.9% | No. 6 life insurer (2.2% market share) | December 2001 |
| Malaysia | Mayban Fortis | 30% | No. 3 in life; no. 1 in non-life; no. 1 in Takaful (Islamic insurance); access to Maybank's extensive network | February 2001, followed by the acquisition of 98.84% in MNIH in March 2006 |
| Thailand | Muang Thai-Fortis | 40% | No. 6 life insurer | June 2004 |

# Looking beyond your horizon

**The beginning of a journey is always an unforgettable moment. Especially when you have Fortis at your side. We are a financial partner who wants to be there every step of the way as you realise your unique ideas and plans. Fortis can help you, the entrepreneur, to enjoy the fruits of your imagination.**

# Strong risk management

Risk management is crucial to every aspect of Fortis's operations. We have created a strong risk management and internal control structure to effectively measure, monitor and manage the range of risks to which our banking and insurance activities are exposed.

## Risk management and internal control

As a financial services provider, we have a long-established culture of risk awareness. We are also firmly committed to making internal control an integral part of the way we conduct our operations.

### Responsibility

Ultimate responsibility for implementing and maintaining our internal control system and for reviewing its effectiveness lies with the Fortis Board of Directors. The Executive Committee and the Management Teams at the individual businesses, legal entities, support services ('horizontal functions') and subsidiaries carry out these functions in practice. It is management's task to:

- Set the example;
- Establish clear objectives;
- Maintain a strong awareness of internal control;
- Create appropriate organisational structures;
- Identify, assess and monitor risks;
- Ensure the effectiveness of all processes;
- Report on all this and take corrective action where necessary.

Internal control is firmly embedded within our organisation. It relies on the contribution of all our employees, as it is their combined efforts that ultimately determine whether our systems and procedures are functioning as intended.

### Policies and standards

The Board of Directors sets company policy on key operational areas such as business conduct, private investments and the independence of external auditors. We have also instituted a whistleblower procedure. The Executive Committee and the individual Management Teams then establish specific operational and reporting standards for application across the whole of Fortis, a particular business or within a geographical region.

Together, these policies and standards form an integral part of our internal control system. They are regularly reviewed and updated, set out clearly in the form of manuals, and publicised using internal communications. The frequency of review depends on the specific risk profile of the activity in question.

Management's responsibility extends to the formulation of second-level controls: in other words, control procedures to ensure that the primary controls are functioning effectively and that significant failings are reported to the appropriate hierarchical and/or supervisory level and acted upon.

### Business objectives

Each business has a plan – updated, discussed and approved each year by the Board of Directors – setting out its strategic, operational, financial and compliance objectives. Operating performance is reviewed by senior management and the Board, which also set targets for the multi-year budget drawn up annually. This budget – based on the underlying budgets of each of the businesses – is then reviewed and approved by the Board. Results are continuously monitored and budget progress reports are drawn up each quarter.

### Operations

The Management Teams at each of our businesses are responsible for internal control, which entails the correct processing, execution and recording of all transactions carried out within their respective front, middle and back-office systems. Automated systems are a particular focus in this regard, with adequate access and application controls as an integral part. These are scrupulously tested before any new system is put into place. Strict routines are also in place to ensure operational and system security.

### Safeguarding assets

Additional standards and controls are delivered by our support functions. These are independent of the businesses and report to the CEO, CFO, Chief Operating Officer (COO) or Group Chief Risk Officer as appropriate.

The role of Central Risk Management is to ensure that systems and procedures are in place to identify, control and

report on major risks, including investment risk (credit, market and liquidity risk), insurance risk and operational risk. The unit independently monitors the risks incurred and reports on them via a Risk Committee structure flowing upwards to the Risk and Capital Committee and to the Board. The Operational Risk Management unit keeps track of all operational 'loss events' and risks at our banking operations using the Risk Self Assessments required by Basel II and ensures that these are reported to the Risk Committees. At our insurance businesses, meanwhile, operational risks are addressed using Control Risk Self Assessments, with relevant topics discussed by the respective Risk Committees. The Risk Mitigation unit monitors the adequacy of business contingency plans in all major operational areas. These plans are intended to allow business activities to be resumed as rapidly as possible in the wake of disruptions or emergencies, while simultaneously providing damage control. Our risk management framework is described in further detail on page 57.

## Financial reporting

The Board sets and approves the accounting policies adopted by Fortis. The CFO Office then ensures that comprehensive internal controls are in place for the preparation and publication of our periodic financial statements and ad-hoc financial bulletins. The CFO Office also draws up the consolidated financial statements for Fortis as a whole and the statutory financial statements of individual Fortis companies. A pyramidal structure of meetings involving business controllers as well as internal and external auditors at different levels of the company enables information to flow upwards so that the CFO Office can ensure that financial and accounting data communicated externally does not contain any material inaccuracies.

## Legal, Compliance and Tax

Our Legal, Compliance and Tax departments advise on and monitor all legal, compliance and tax aspects of Fortis's activities and regularly report on the risks they identify and on outstanding litigation in their respective fields.

The Legal department provides exclusive, proactive and independent legal support and policy-setting services, in order to protect Fortis's legal interests.

Compliance aims to achieve reasonable assurance that Fortis and its employees are complying in practice with prevailing laws and regulations, as well as with internal rules and ethical standards. The Compliance department also seeks to maintain a relationship of trust and mutual understanding with regulators and supervisory authorities.

The Tax department aims to provide reasonable assurance that Fortis and its employees comply with all applicable tax laws. By monitoring tax compliance, base and risks, the Tax department also contributes to the accuracy of Fortis's tax accounts.

## Monitoring

In a distinctive element of our reporting and monitoring cycle, senior managers up to the Executive Committee sign annual internal management control statements. These follow on from a Control Risk Self Assessment process, including the drafting of action plans to remedy identified weaknesses. Key observations are reported to and discussed by the Business Risk Committees, the Banking and Insurance Risk Committees (OPC and IRC, see risk management framework on page 57), the Executive Committee and ultimately by the Audit Committee. Developments in internal control quality are also factored into our senior managers' variable remuneration.

Fortis Audit Services (FAS), which is centrally organised, monitors the effectiveness of internal control across the whole of Fortis. Auditors evaluate the safeguarding of assets, the effectiveness of operations, compliance with applicable laws and regulations, and the reliability of financial and management information. They then present recommendations and follow them up to ensure they are implemented correctly. FAS focuses on the areas of greatest risk to Fortis, as identified by our structured risk assessment process. The unit's methodology is rooted in the COSO ERM framework, which provides for benchmarking against generally accepted control standards. FAS is authorised to audit all aspects of operations and is provided with the necessary resources – both qualitatively and quantitatively – to carry out its functions effectively. In this way, the unit serves as an independent and objective assurance provider that reports directly – through the General Auditor – to the CEO and Audit Committee. The General Auditor also has direct access to the Chairman of the Board.

## Changes in risk management and internal control

Our Credit Risk Management and Central Risk Management structure was adjusted in the second quarter of 2005, reflecting the need to tailor our organisational model to the new Fortis strategy and organisational structure, while also taking account of best practice in the risk management field. The strategic elements of Credit Risk Management (Policies, Reporting, Portfolio Management) and Project Management (e.g. Basel II) have been integrated into the structure of Central Risk Management. The operational aspects, meanwhile, have been integrated into the respective businesses.

Did you know that Fortis… has built itself a rock-solid position in European leasing and cross-border factoring? We're now in the top five for both.

As a result, day-to-day management and support of the operational credit processes is now the responsibility of the business CEOs. Setting objectives for local Risk Managers has become the joint responsibility of the Group Chief Risk Officer and the business CEO.

Our compliance structure was changed in the year under review:

- A new centralised structure has been adopted;
- A Compliance Charter has been issued giving a comprehensive and clear description of this new organisation and its basic operating standards and rules;
- A new Management Team has been installed to ensure a uniform approach to all compliance matters Fortis-wide.

Compliance has also implemented its Compliance Risk Assessment methodology. Having defined a distinct framework, the next step is to identify the different compliance risks associated with specific banking and insurance activities. These are then prioritised and operational action plans are agreed in consultation with the relevant business. Compliance Risk Assessment also includes a comprehensive reporting scheme to monitor the development and implementation of the action plans.

A whistleblower procedure was introduced in the course of 2005. On 1 January 2006, Investigations joined the Legal and Compliance department to form a single Fortis-wide operating department. The mission of Investigations is to pursue Fortis's zero tolerance to fraud policy and to ensure that the company, its employees and intermediaries operate in an ethical manner by investigating fraudulent acts and other unacceptable behaviour and by participating in the prevention, detection and monitoring of such acts in close collaboration with Compliance and Internal Audit.

Future improvements to risk management and internal control will include further strengthening the support functions across the banking and insurance businesses and reviewing the need for additional control documentation due to developments within our control systems or in response to external requirements.

### Evaluation

The risk management and control systems relating to other risks basically aim to provide reasonable but not absolute assurance that:

- Business objectives are being met;
- Business operations are being carried out effectively and efficiently;
- Assets entrusted to Fortis are safeguarded, together with our own assets;
- Fortis is in compliance with applicable laws and regulations including internal procedures and policies.

All the structures, procedures and control systems described above together make up Fortis's system of internal control. As far as financial reporting is concerned:

- The risk management and control systems provide reasonable assurance and the financial reporting does not contain any material inaccuracies;
- The risk management and control systems functioned properly in the year under review;
- Based on the information available as of the date of this Annual Review, there are no indications that the risk management and control systems will not function correctly in the current year.

As with any internal control setup, Fortis's system has its limits. Although it cannot completely eliminate the risk that business objectives will fail to be met, it can nevertheless keep that risk within acceptable parameters. It provides reasonable but not absolute assurance against material misstatement or loss.

The control system described above was fully operational in the year under review and remains operational to date. All major aspects and improvements have been the subject of discussion in the Audit Committee, which reported on these to the Board. The control system is dynamic in nature, as it is continuously adapting to changes in the internal and external environment, including all regulatory developments.

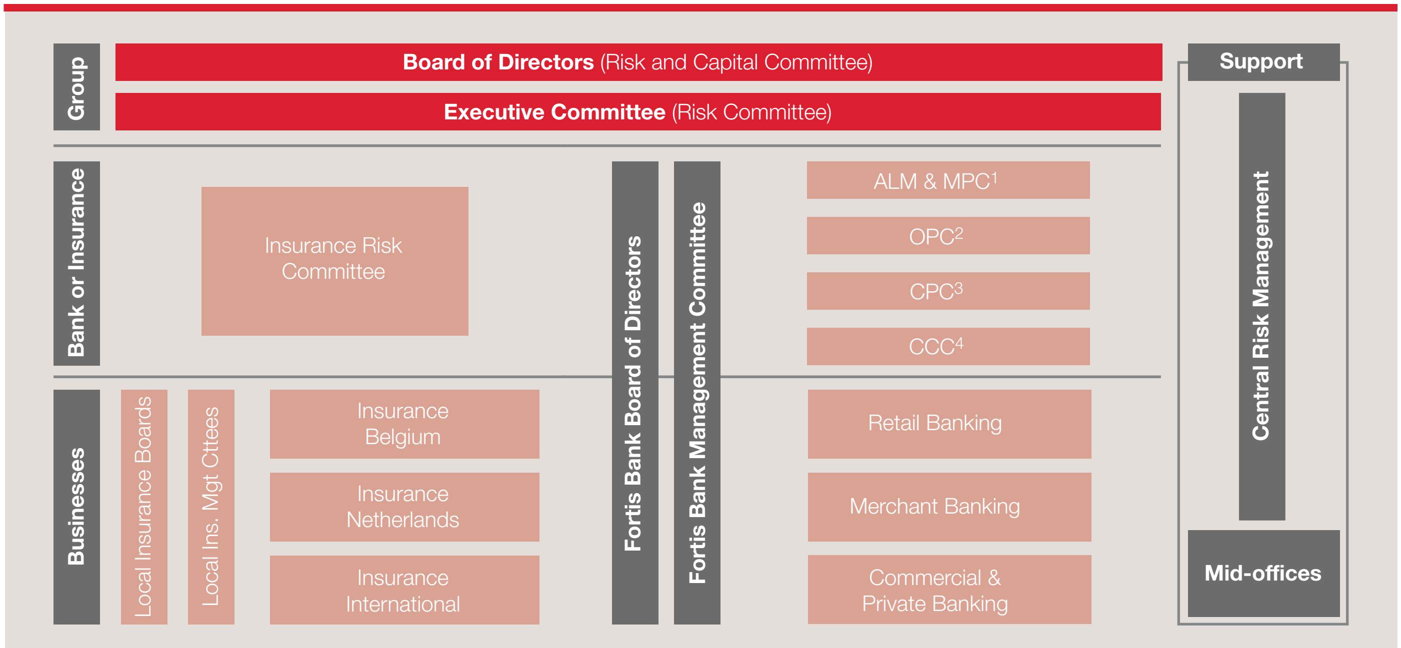
The Audit Committee reviews the effectiveness of this system and reports regularly to the Board. The key input used by the Committee in carrying out its work includes extensive reporting on internal controls by FAS, reports of the Compliance Officer and the external auditors, reports of the CFO Office, management declarations on internal control, information on operational losses (Basel II) as well as any information on litigation and supervisory reviews. The Audit Committee of Fortis also receives information regarding the activities of the Fortis Bank Audit Committee and Fortis Insurance Audit Committee.

## Strong, centrally controlled risk management organisation

The Board of Directors monitors Fortis's solvency, identifies significant risks and determines the general risk/return requirement. The Executive Committee is responsible for setting strategic guidelines and high-level policy in the area of risk management, for monitoring consolidated risk reports at company level and for allocating economic capital to the various Fortis entities. The banking and insurance businesses each have their own responsibilities within this overall framework.

In the case of our banking activities, those responsibilities lie with the Board of Directors and the Management Committee.

**Overview of the Fortis risk management structure**




[1] Asset and Liability Management & Market Risk Policy Committee [2] Operational Risk Policy Committee [3] Credit Policy Committee [4] Central Credit Committee

These are assisted by a number of specific committees within the banking businesses, such as the Asset and Liability Management & Market Risk Policy Committee (ALM & MPC), the Operational Risk Policy Committee (OPC), the Credit Policy Committee (CPC) and the Central Credit Committee (CCC).

Responsibility for risk management within our insurance operations lies with the board of each entity, all of which have Risk Committees of their own. The latter meet regularly, as does an Insurance Risk Committee, the members of which include the CEOs/CFOs of each business and the CFO and corporate Chief Risk Officer. The responsibilities of the Insurance Risk Committee include monitoring the overall risks and solvency of the insurance business, setting risk policy for insurance companies and approving investment policies.

A Central Risk Management team, headed by the Chief Risk Officer, is responsible for:

- Developing and implementing the risk structure;
- Supporting the work of the Risk Committees;
- Risk reporting and reviewing;
- Recommending further risk methodology developments;
- Encouraging and supporting risk/return optimisation.

As we mentioned earlier, one of 2005's major events at organisational level was the reorganisation of the Credits function within Fortis. Credit management, credit covering policy and credit reporting have now been fully integrated within the central risk management function headed by the Chief Risk Officer. The focus here is on optimum risk management and independence. The operational side of credits has been transferred to the different businesses, where the focus is more on technical credit skills and operations.

The CEOs of the respective insurance businesses are in charge of day-to-day management and support of the operational credit process. However, the Central Credit Committee is responsible for credit decisions, and the Credit Policy Committee for setting policy and methodology in the area of credit risk.

To further improve our credit risk management, we have created a department to provide global credit portfolio management covering both our banking and our insurance operations. This will help us to ensure that credit risk concentrations are better monitored and reported across the company. It will also reduce the risk of inadvertently carrying out transactions in different parts of Fortis that have the effect of cancelling each other out (e.g. hedging a corporate loan while investing in a bond from the same counterparty).

## Preparing for Basel II

We invested a considerable amount of effort in 2005 to prepare our banking operations to comply with the new Basel II regulatory framework. A dedicated Programme Management body was set up to that end, with the active involvement of Central Risk Management, the CFO Office and Information Services. Steering groups were also created at each of our major banking entities to coordinate at management level within the entity and with Basel II Programme Management. The groups are also responsible for implementing the project on schedule.

## Taking youngsters to the top

**Climbing is a great sport for building confidence in yourself and other people. So it was the perfect choice last December when 350 Fortis volunteers spent a day coaching a thousand deprived 15 year-olds at indoor climbing centres all over the Netherlands.**

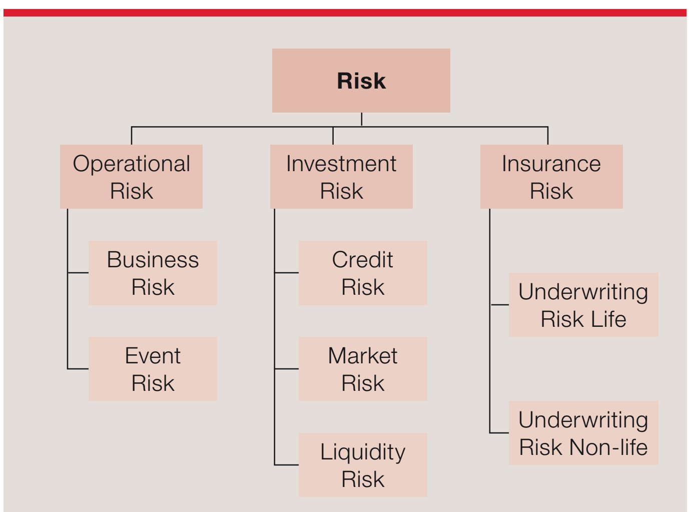
**The event was part of 'Make a Difference Day' (MADD) and our people's contribution to it earned Fortis Foundation Netherlands the title of 'MADD Company of the Year'.**

We are currently entering the delivery phase of this huge project, and so Programme Management recently began to draw up the official request for approval to be submitted to the regulator. The first objective is to deliver a preliminary application file comprising:

- A documentation set showing that all requirements have been met;
- A use-test demonstrating that the internal ratings are being used effectively;
- A high-quality internal approval process, including an internal audit review;
- A structured library of internal Basel II documents (methodology, processes and internal reviews).

## Standardised Risk Taxonomy

We have used a standardised risk taxonomy for the past several years to help us manage more effectively the principal risks to which we are exposed.




### Operational risk

This takes in all risks that are not linked specifically to the performance of our banking or insurance activities. Operational risk can be split into two categories for reporting and monitoring purposes. The first category represents the business risk: the risk of losses due to events that could damage a business's franchise or its operating economics, such as shifts in the competitive environment, or legislative or tax changes. The second comprises the risk of losses due to events such as errors and omissions, system failure, fraud, crime, legal proceedings or damage to buildings or equipment.

The Operational Risk Policy we implemented in 2005 sets out the framework and organisation (including roles and responsibilities) at company, business and country level. It also defines reporting lines from the various risk-management units and introduces specific operational risk tolerance levels.

We also continued and intensified the initiatives we launched in 2002 to improve the monitoring and control of this risk by means of enhanced assessment and measurement. A set of operational risk management instruments has been developed to that end and applied throughout our operations. These cover the reporting of operational losses, the modelling of operational risks, the completion of Risk Self Assessments, the observation of key risk indicators and business contingency planning. The operational risk instrument set is supported by an internally developed IT application (OPERA).

In the context of Basel II, we have opted for the 'Advanced Measurement Approach' for assessing Fortis's operational risks.

Fortis is a co-founder of the Operational Risk Data Exchange Association (ORX). This joint initiative by a number of major international banks provides data exchange facilities to enable operational risk to be analysed and modelled more accurately.

### Investment Risk

Credit risk is the risk that a borrower or counterparty will no longer be able to repay their debt. This may result from a straightforward inability to pay (insolvency) or from government restrictions on capital transfers. Credit risk arises in both traditional lending – chiefly in banking operations – and in the purchase of investments – primarily on the insurance side.

Strong risk management | 59

All our businesses use appropriate instruments to evaluate and monitor these risks.

**Breakdown of credit risk by type**

| | 2005 | |
|---|---|---|
| Cash and cash equivalents | 4% | |
| Interest-bearing investments | 29% | |
| Assets held for trading | 7% | |
| Due from banks | 13% | |
| Due from customers | 47% | |
| • Residential mortgages | | 14% |
| • Consumer loans | | 2% |
| • Commercial loans | | 16% |
| • Reverse repurchase agreements | | 10% |
| • Securities lending | | 3% |
| • Others | | 2% |
| Total credit risk on balance | 100% | |
| Total credit risk on balance (in EUR billion) | 606 | |

There are three main sources of credit risk within our banking activities: counterparty, transfer and settlement risk. Fortis counters these risks by applying strict checking procedures as part of our fully independent credit approval process. In essence, our credit policy sets out to spread the risks across several sectors and countries.

Fortis also uses an internal rating system for managing the credit-risk exposure of our banking operations. We apply it to our overall credit portfolio, based on statistical analysis and the expected default frequency. This enables us to price individual credits on the basis of risk, while also generating the information needed to calculate the economic capital and the risk-adjusted returns.

Since 2000, Fortis has been actively pursuing a policy of improving the risk/return profile of our credit activities by constantly improving our risk assessment and applying risk-weighted pricing. We are also working to reduce the outstanding credit risk by securitising part of our existing credit portfolio.

In the light of Basel II, we have opted for the Internal Rating Based method in assessing our credit risk. This involves assessing the risk of failure of the counterparty, based on our own historical data.

Credit risk on the part of our insurance activities relates mainly to the counterparty risk in investments. We limit this type of risk by setting strict creditworthiness standards for investments and by spreading investments across sectors and countries. A substantial part of our Benelux insurance portfolio is invested in fixed-income securities, which are covered by direct or indirect government guarantees.

The Credits department was actively involved in several due diligences in the course of the year. Every time a takeover or merger was considered, the department issued an opinion regarding the risk in the credit portfolio.

Market risk refers to the likelihood of losses due to sharp fluctuations in the financial markets – in share prices, interest rates, exchange rates, commodity prices or property prices. These fluctuations also create risks that impact both the structural positions of our banking and insurance activities (Asset/Liability Management – ALM risk) and the trading positions taken by our banking businesses (trading risk).

Fortis monitors and controls its ALM risk with the aid of risk indicators such as basis point sensitivity (which indicates how much the market value of all assets and liabilities changes when each individual point on the yield curve changes by one basis point), the duration of the capital and reserves (a general measure of the interest-rate risk), earnings at risk (an indicator that simulates the effect of changes in interest rates on future results) and value at risk (VaR, which calculates the potential structural loss for Fortis resulting from market fluctuations, based on a horizon of one year and a reliability interval of 99%, as required by the regulator). The VaR figures are reworked when calculating economic capital, as our internal reliability interval is more rigorous (99.97%).

For our banking activities, the fixed-rate period of the assets is longer than that of the liabilities, as banks traditionally receive funds in the shorter term and reinvest them for the longer term. As a result, an upward movement in the capital market yield curve will lead to a more pronounced fall in the value of the assets than in that of the liabilities. It also has the effect of reducing the value of the banking operations, which consists after all of the difference between their assets and liabilities. A movement in the opposite direction naturally increases the value of our banking activities.

On the insurance side, by contrast, the liabilities have a longer term than the assets, as the insurer's commitments – especially in the life sector – have a longer fixed-rate period than the assets in which the insurer can invest. Moreover, traditional insurance products generally offer guaranteed interest rates. As a result, an upward movement in the yield curve has a favourable effect, boosting the value of the insurance activities, with a downward movement obviously having the converse effect.

This fundamental difference in the balance sheet structure of banking and insurance operations means that combining the two operations, as we have done at Fortis, reduces the overall impact of interest-rate movements.

The activities of Merchant Banking are particularly subject to trading risk. This too is monitored using the VaR indicator, based on a holding period of one day and a reliability interval

of 99%. The different components of the market risk (interest rates, exchange rates, equities and commodities such as gold and silver) are evaluated both separately and in combination, taking account of correlations between movements in their respective market values. Once again, the VaR figures are reworked when calculating economic capital, as our internal reliability interval is more rigorous (99.97%).

**Trading risk monitored by the Value at Risk indicator**

| | 2005 | 2004 |
|---|---|---|
| Value at Risk (VaR) as of 31 December | 15.9 | 12.7 |
| Highest VaR | 22.9 | 55.2 |
| Lowest VaR | 10.0 | 9.2 |
| Average VaR | 14.4 | 21.7 |
| Efficiency ratio | 131% | 88% |

The effectiveness of VaR calculations is verified using 'back-testing'. This involves reviewing the number of days when the losses were greater than the estimated VaR. For our trading activities, for instance, Fortis applies a probability level of 99%, which means that the negative trading result may be greater than the VaR on only one day per 100. Back-testing analysis shows that Fortis achieved this target in 2005: there was only one day on which the difference in market value of two successive days was greater than the estimated VaR.

Merchant Banking Risk Management has further implemented a merchant banking risk structure for all sites at which the business operates, including recent acquisitions. Special attention was paid to coherence between sites, to ensure that each of Merchant Banking's local risk management teams has the same responsibilities. Investment at the business has focused on integrating new activities launched to increase the diversification of risk factors. Commodity, equity and credit derivatives accounted for the major part of the investment. The dealing room has also invested heavily in the development of structured products to meet demand on the part of all customer types for this category of products.

A project focusing specifically on the management of liquidity risk was initiated in 2004. The basic principles of our Fortis-wide liquidity policy were formulated in 2005 and will be taken into account by all our entities – banking, insurance and other – as they define or adjust their own policies in this area, subject to their specific needs and regulatory regimes.

### Insurance risk

Underwriting risk refers to the risks inherent in insurance operations (in addition to the ALM risk referred to earlier). As far as life activities are concerned, it reflects variations in mortality and longevity. Risk at non-life activities concerns the degree of variability of future claims and uncertainty regarding the evolution of existing claims.

The adequacy of insurance charges and provisions is assessed regularly, with a significant proportion of the provisions analysed using sophisticated stochastic techniques. We are striving more and more to improve our understanding of diversification and concentration effects across Fortis. We purchase reinsurance cover where appropriate, some of which is channelled through an internal captive structure to exploit diversification benefits within Fortis.

## Risk Mitigation

The Risk Mitigation department implements a broad range of measures aimed at reducing the impact of a wide variety of risks. It also coordinates and executes a series of management controls. These activities have long included the insurance of operational event risk through, for instance, the insurance of that risk using instruments like the traditional bankers' blanket bond, professional indemnity and directors' and officers' insurance. The cover is obtained either in the external insurance and reinsurance markets or using alternative risk transfer. The unit also advises several central staff functions regarding the insurance of operational and other risks. That activity was further extended in the past year.

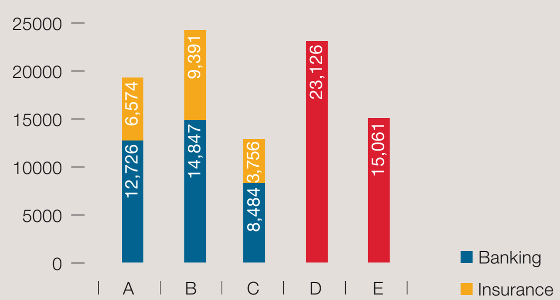
Risk Mitigation is actively involved too in the Fortis-wide coordination, quality assurance and monitoring of Business Continuity Management. This ensures the continued availability of key Fortis processes and locations during an emergency. We decided in the course of 2005 that the Business Continuity Management unit would also henceforth coordinate and support the development, implementation and monitoring of information security policy.

Our Risk Mitigation department has gradually evolved into a support unit that coordinates the implementation of internal and management control – especially with regard to projects that can be implemented more efficiently on a Fortis-wide basis.

Did you know that Fortis... is a worldwide top ten player in shipping finance with 25 years of experience? And that we are the world number one in commodities finance measured by market coverage?

## Economic capital

**Strong solvency** (in EUR million)




A **Fortis minimum**
Banking: 6% of risk-weighted commitments (Tier 1)
Insurance: 1.75 statutory requirement
B **Fortis maximum**
Banking: 7% of risk-weighted commitments (Tier 1)
Insurance: 2.50 statutory requirement
C **Legally required minimum**
D **Net core capital**
E **Economic capital**

We have developed 'economic capital' as a consistent and comparable measure of risk across all risk types and geographies at Fortis. It serves as an indicator of value at risk (VaR) to a confidence interval of 99.97% and with a horizon of one year, which represents very extreme events. The methodology is refined and improved on an ongoing basis.

The economic capital is calculated separately for each risk type per business. We then determine the total economic capital at business level, at banking/insurance level and for Fortis as a whole. The figures obtained in this way are used for a range of internal monitoring and management purposes.

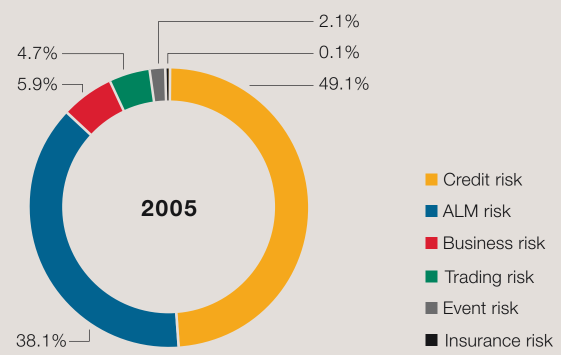
Since it is extremely unlikely that all risks will become reality at the same moment, an allowance is made for diversification benefits when adding up the individual risks. The result is a total economic capital figure at company level that is significantly lower than the sum of the individual risks.

As we noted in the section on investment risk, in addition to this more general diversification, Fortis benefits from a netting effect across bank and insurance interest-rate risk due to the fundamental balance-sheet differences between our banking and our insurance operations.

### Breakdown of economic capital

The graph represents the contribution of each risk to our total diversified economic capital. Consequently, risks such as 'insurance risk' contribute very little to the overall amount because they only correlate weakly with the other risks.

**Economic capital by risk type**
(after diversification, year-end 2005)




### RARORAC

The Risk Adjusted Return on Risk Adjusted Capital (RARORAC) is a performance yardstick that establishes a consistent relationship between the risks and returns of Fortis's various activities. RARORAC is calculated by dividing the risk-weighted return by the economic capital. The risk-weighted return is itself determined on the basis of the result before tax and discontinued operations, with provisions for credit risks being replaced by estimated, cycle-neutral expected losses.

RARORAC improved considerably in 2005, on the back of the strong results: for the whole of Fortis it increased to 22% from 16% in 2004. RARORAC at all the businesses was above the 15% long-term hurdle rate. The economic capital increased by 9% to EUR 15.1 billion, mainly as a result of growing commercial activities and the change in consolidation scope.

**Return on Risk Adjustment**

| (in EUR billion) | Economic capital | | RARORAC | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Retail Banking | 3.3 | 3.4 | 26% | 15% |
| Merchant Banking | 3.7 | 3.3 | 22% | 11% |
| Commercial & Private Banking | 2.5 | 2.3 | 18% | 19% |
| Other Banking | 1.4 | 1.0 | | |
| **Total Banking** | **10.9** | **9.9** | **20%** | **14%** |
| Insurance Belgium | 1.5 | 1.5 | 30% | 31% |
| Insurance Netherlands | 1.9 | 1.5 | 27% | 30% |
| Insurance International | 0.6 | 0.4 | 35% | 29% |
| **Total Insurance** | **4.1** | **3.4** | **30%** | **30%** |
| General | 0.1 | 0.5 | N.A. | N.A. |
| **Fortis Total** | **15.1** | **13.8** | **22%** | **16%** |

# Committed to sustainability

As part of the society in which we operate, we want to make a genuine contribution to our stakeholders' prosperity and well-being. The active pursuit of corporate sustainability is fundamental to what we stand for as a company.

**Fortis is included in several sustainability indices:**

Dow Jones Sustainability Stoxx Index
Dow Jones Sustainability World Index
FTSE4Good

At Fortis, corporate sustainability means conducting business in a responsible way: achieving sustainable economic growth while anticipating the legitimate interests of our stakeholders and accepting our social and environmental responsibilities. By living our values, we position ourselves in a learning process in which we are constantly striving to improve and to find solutions that meet our stakeholders' needs, now and in the future.

We drew up 'Agenda 2006' two years ago as a corporate sustainability roadmap for our organisation. The key elements of that plan are:

- Integrating sustainability objectives in our regular business plans;
- Reinforcing internal coordination and our corporate sustainability network;
- Developing sector policies, taking account of international standards;
- Drawing up an environmental statement, including purchasing policy;
- Encouraging our stakeholders to be involved more proactively;
- Optimising our sustainability reporting process.

### Significant progress

We made great strides in 2005 in taking sustainability forward and executing Agenda 2006. We modified the company's sustainability governance last year, creating a new Corporate Social Responsibility function headed by a General Manager who reports directly to the Deputy CEO. The new structure brings a variety of benefits, including the ability to accelerate progress throughout the Fortis organisation.

Our main focus was on involving Fortis's businesses more directly and on implementing sustainability within our commercial processes. Employee awareness and active involvement by the businesses will be crucial to the success of our sustainability strategy, which is why we have intensified our internal communication in this area. Fortis's regular communication channels provided more frequent coverage for sustainability issues, alongside which we have set up a dedicated communication channel. Corporate Social Responsibility's intranet site has proved a valuable tool as well, offering news items, an information database and interactive 'dilemmas' to discuss.

Our businesses and support functions have also been working on their own corporate sustainability ambitions. These vary from one activity to another, depending on the specific services we provide, the markets in which we operate

and the customers we serve. Some businesses seize opportunities by creating new products, others by stepping up existing initiatives.

At the same time, sustainability has assumed a more prominent position in business processes like credit management. An overall credit policy has been approved, which means credits can now be assessed in terms of their sustainability implications too. We will continue to develop detailed policies for specific sectors, as we have done for the defence industry.

Endorsement of international standards is another important area. Following substantial research and consultation, we signed the 'Equator Principles' in February 2006. These provide guidance and criteria in the area of project finance. Using the Equator Principles, projects are categorised according to their potential impact, ranging from category A (high impact) to category C (low impact). Those given an A rating require both an Environmental Impact Assessment and an Environmental Management System to be in place.

An environmental statement and central purchasing policy have been drawn up for our organisation. The drafts have been completed and will be submitted for final approval in the course of 2006.

By improving the robustness of our internal organisation and processes, we have laid the foundations for further development and expansion. Meanwhile, we made progress in 2005 in our interaction with stakeholders. This included a continuing dialogue with organisations like Friends of the Earth, with which we discussed issues like the financing of palm oil transactions.

Our two Fortis Foundations (one each in Belgium and the Netherlands) play a key role within the broader context of corporate social responsibility. Commitment to society in the shape of volunteer work and donations is a fundamental element of our overall social responsibility. A great many activities are organised in both countries, in which Fortis employees give their time and money to help deprived youngsters and to encourage solidarity between the generations. You can find more information in the Foundations' own reports. New Foundations focusing primarily on combating social exclusion are to be set up in several countries in which we are present.

## Recognition

Our efforts were recognised in 2005 when Fortis was ranked worldwide number six for carbon reduction (*BusinessWeek*, 12 December 2005). The rating reflected our financing of projects to cut emissions and to encourage the trading of carbon credits. We were also designated 'Best in Class' for our approach to climate change in a report published by the Carbon Disclosure Project – a global survey into how the world's biggest companies have responded to the issue of climate change. Fortis was included in the report's Climate Leadership Index along with other international corporations deemed to be addressing the challenges of global climate change.

Despite these successes, we are well aware of the challenges ahead. We are currently drawing up the longer-term vision that will succeed Agenda 2006. The process will involve a wide range of Fortis managers and employees, together with a number of external stakeholders. The updated strategy will support our overall goal of positioning Fortis in the top 25% of financial institutions with respect to sustainability.

The issue of sustainability prompts fresh dialogue on risk management, compliance, reporting and even governance. It inspires us to think about product opportunities, customer involvement and new partnerships, ultimately lifting our standard of performance to a higher level.

The second *Sustainability Report*, which will look in greater detail at the elements discussed here, will be published in May 2006. We invite you to read it and to share your observations and ideas with us. Additional information can be found on our website, www.fortis.com.

# Dynamic corporate governance

## We are convinced that creating a clear framework for good corporate governance will help us to communicate more effectively with all our stakeholders.

Corporate governance is a dynamic process. The Fortis Board of Directors constantly re-evaluates our company structure so that we can respond to changes in our operations and to best practices in our home market and beyond.

### Regulatory developments

There were very few regulatory changes in 2005. The most noteworthy developments are summarised below.

On 15 February 2005, the European Commission – in the wake of its Action Plan to modernise company law and to strengthen corporate governance in the European Union (May 2003) – published its recommendations on the role of non-executive directors.

On 11 October 2005, the European Council of Ministers approved the draft directive, as amended by the European Parliament, to improve the reliability of corporate financial statements. Other European regulatory initiatives are expected to be launched in 2006.

Previous European directives on market abuse were incorporated in local legislation in Belgium and the Netherlands, and a similar process was initiated for the European directive on acquisitions. Needless to say, we are closely monitoring these developments.

In Belgium, the governance landscape was impacted by the entering into force of a new corporate governance code, known as the 'Lippens Code' as of 1 January 2005.

In the Netherlands, the Dutch Minister of Finance, the Minister of Justice and the Secretary of State for Economic Affairs set up a Corporate Governance Monitoring Committee in December 2004 to monitor compliance with and application of the 'Tabaksblat Code' (issued a year earlier) by listed companies and shareholders. The 'Frijns Committee' – as it is known, after its chairman – was also tasked with reviewing the practicality of the Code and updating it on an annual basis, taking account of national and international developments in corporate governance. It published its first report in December 2005, in which it set out several recommendations regarding the Code's interpretation.

### Developments at Fortis

We reviewed our policy on market abuse in 2005. Fortis has a unique corporate structure, with twin Dutch (Fortis N.V.) and Belgian (Fortis SA/NV) parent companies, and parallel listings on Euronext Amsterdam, Euronext Brussels and the Luxembourg stock exchange. This means that at every level within Fortis, people who have access – regular or occasional – to privileged information have to comply with both Dutch and Belgian legal regulations, and with any additional requirements imposed under local law.

The Fortis Policy on Private Investments included in the Fortis Governance Statement sets out four principles that establish minimum standards which Fortis is bound to observe. The basic principles are supplemented by detailed sets of rules.

We drew up a policy last year for the creation and operation of the audit committees at different Fortis units. The policy also focuses on possible interaction between these committees.

Codes of conduct were prepared for Fortis's asset management operations. These give the units in question the freedom to develop their own voting policies, thereby respecting their autonomy in all areas related to actual asset management.

Did you know that Fortis... is the UK's third largest private car insurer? Or that it was voted British 'Motor Insurer of the Year' in 2005 for the fourth time?

Following the closure of the financial year, the Fortis Board of Directors made a minor change to the company's governance structure at its meeting on 25 January 2006. In future, the boards of directors of the two group holding companies – Fortis Brussels and Fortis Utrecht N.V. – will consist exclusively of the members of the Executive Committee (they previously comprised the same directors as the boards of the parent companies Fortis SA/NV and Fortis N.V.). The Executive Committee members will jointly form a legal body within the holding companies, reinforcing their responsibility at this level. The purpose is to enhance the transparency of Fortis's overall structure and the pattern of responsibilities within the respective parent companies.

This chapter includes a review of Fortis's compliance with the corporate governance principles set out under Dutch law and in the recommendations of the Lippens Code in Belgium. The following presentation of governance principles and practices at Fortis is a summary of the information set out in the Fortis Governance Statement, the full text of which can be downloaded from our website or obtained from our head offices. See the back cover of this Annual Review for contact details.

## Fortis's structure and share

Fortis was created in 1990 by the cross-border merger – Europe's first – between the Belgian insurer AG Groep and the Dutch bancassurance group AMEV/VSB. Our overall legal structure was regularly adapted in the ensuing years to enable us to manage our cross-border operations efficiently and to allow private shareholders in Belgium and the Netherlands to continue to invest in Fortis. This culminated in the current, innovative governance model, headed by a Belgian (Fortis SA/NV) and a Dutch (Fortis N.V.) parent company, shares in which have been linked to form the Fortis share. Fortis shares function as ordinary shares in every respect, including the associated voting rights and dividend entitlement.

Each Fortis share carries a single vote at the shareholders' meeting of both Fortis SA/NV and Fortis N.V. Fortis shareholders are thus entitled to attend and cast their votes at the General Meetings of both companies. The two shareholders' meetings basically deal with the same matters. The Articles of Association specify that certain resolutions have to be taken by both meetings if they are to be enacted.

There were 1,301,140,005 Fortis shares with voting rights and dividend entitlement as at 31 December 2005. Fortis N.V.'s authorised capital also includes cumulative preference shares. Fortis N.V. has granted a call option on cumulative preference shares to the *Stichting Continuïteit Fortis*. Additional information regarding Fortis's structure and share is set out in Chapter 2 of the Fortis Governance Statement and note 5 of the Financial Statements.

## Board of Directors

The Fortis Board of Directors consists of a maximum of 17 members, the majority of them non-executives. It operates within the framework created by Belgian and Dutch legislation, normal practices in the two countries and the Articles of Association. The role and responsibilities of the Board of Directors and its composition, structure and organisation are described in detail in the Fortis Governance Statement. That document includes the independence criteria applying to members of the Fortis Board, which have been revised and aligned with prevailing best practice.

### Composition

At the May General Meetings of Shareholders, Annemieke Roobeek left the Board in response to the latter's new policy on the maximum duration of non-executive directorships. She joined the Supervisory Board of Fortis AMEV in 1994 and had served as a non-executive member of the Fortis Board of Directors since 1998. Throughout those years, the Board benefited from her thorough understanding of Fortis's strategic choices and her strong commitment to the company's development.

Since 25 May, the Board has been made up of 11 non-executive members and one executive – the Chief Executive Officer (see page 72 for the composition of the Board).

### Meetings

The Board of Directors met on eight occasions in 2005, with each meeting generally taking about half a day. Attendance details can be found on page 72. The following matters were discussed:

- The strategy pursued by Fortis as a whole and by each Fortis business;
- The strategies pursued by HR, IT and Operations;
- The divestment of Fortis's remaining stake in our US insurance operations and acquisitions including Disbank, Dryden and Von Essen Bank;
- Developments at each Fortis business. Beginning in June 2005, the Board will review each business twice a year;
- The 2005 budget;
- Quarterly balance sheets and income statements, with additional information provided by the CFO and external auditors;
- The impact of IFRS on Fortis's financial statements and developments in IFRS standards;
- The new dividend policy, the 2004 dividend and the 2005 interim dividend;
- Fortis's shareholdership structure and related investor relations strategy;
- Governance policies and, specifically, the directors nominated for reappointment by the General Meetings of Shareholders;
- The update of the Fortis Governance Statement;

- Reports of the Board committees following each of their meetings;
- The remuneration of Executive Committee members;
- The stock option plan for selected members of senior management and Fortis personnel;
- The economic and monetary environment.

### Remuneration

The remuneration of non-executive members of the Board of Directors consists of a base annual salary for board membership and board committee meetings attendance fees. Members do not receive any variable or profit-related incentives, option rights, shares or other fees. Total remuneration paid to non-executive directors in 2005 was EUR 1.7 million.

Remuneration of the Chief Executive Officer, who is the only executive member of the Board, is related exclusively to his position as CEO; he is not entitled to the compensation paid to members of the Board. His remuneration consists of a base salary, a variable annual incentive and a variable long-term incentive. The level of the variable remuneration (annual and long-term incentives) depends on factors such as individual performance, Fortis's performance relative to predefined targets and Fortis's performance relative to several companies in the financial sector. Details of the remuneration paid to Jean-Paul Votron in 2005 are provided in note 12 of the Financial Statements.

One non-executive member of the Board of Directors holds options arising from his previous management position, while several members of the Board of Directors hold Fortis shares. In accordance with Dutch law, details and updates of stock options and shares held by all members of the Board of Directors must be reported to the Authority for the Financial Markets (AFM) in the Netherlands. Members of the Board jointly hold 885,855 shares and 55,900 option rights and restricted shares. See note 12 of the Financial Statements for a review of the remuneration policy, actual remuneration of the members of the Board of Directors and Fortis option and share holdings. None of the members of the Board has any loans or credits outstanding.

## Board committees

Three committees have been set up within the Board of Directors: a Nomination and Remuneration Committee, a Risk and Capital Committee and an Audit Committee. These have a solely advisory function with respect to the Board of Directors, which remains the only body with decision-making powers. Each committee currently has four members, all of whom are independent non-executives. The role and responsibilities of each committee, together with its structure and organisation, are specified in individual sets of rules that form part of the Fortis Governance Statement.

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee advises the Board of Directors on remuneration policy and the remuneration of members of the Board and the Executive Management, on the appointment and reappointment of members of the Board and Executive Management, and on Fortis's employee and management stock and option plans.

The Nomination and Remuneration Committee consisted until 25 May 2005 of Maurice Lippens (chairman), Daniel Janssen, Annemieke Roobeek and Jan Slechte. After Annemieke Roobeek left the Board at the end of May, the Committee continued to function with three members until Jacques Manardo was appointed as the fourth member in November 2005. The CEO attends discussions of all matters affecting members of the Executive Committee.

The committee met on four occasions in the year under review. Attendance details can be found on page 72. The matters discussed included:

- Appointment of members of the Executive Committee;
- Nomination of members of the Board of Directors;
- Remuneration Policy;
- Performance appraisal of members of the Board of Directors and the Executive Committee, including the CEO;
- Remuneration of the CEO and members of the Executive Committee;
- Disclosure and other statutory duties regarding remuneration and share and option rights held by members of the Board of Directors and Executive Committee.

The Chairman of the Nomination and Remuneration Committee reported on the aforementioned matters to the Board of Directors after each meeting and advised the Board on decision-making.

Did you know that Fortis... recently adopted the 'Equator Principles' – the sustainability policies and guidelines developed by the World Bank and its International Finance Corporation? We will apply the principles globally to project finance for all industry sectors.

## Risk and Capital Committee

The Risk and Capital Committee assists the Board of Directors in three ways:

(i) Understanding Fortis's exposure to risks inherent to banking and insurance activities;
(ii) Overseeing the proper management of these risks;
(iii) Ensuring the adequacy of Fortis's capital relative to these risks and to those inherent to its overall operations.

The Risk and Capital Committee comprises the following four members: Jan-Michiel Hessels (chairman), Jacques Manardo, Rana Talwar and Piet Van Waeyenberge.

The Risk and Capital Committee met three times in 2005 (see page 72 for attendance details). Based on detailed presentations from the CRO and CFO Offices, the Risk and Capital Committee analysed and discussed the following matters:

- Fortis's financing requirements and strategy;
- Fortis's solvency;
- Fortis's risk profile (economic capital and RORAC per business);
- The status of the Liquidity Management project;
- Fortis's position with regard to Basel II and Solvency II;
- Fortis's risk structure and risk governance;
- Dividend policy and the 2004 dividend.

The Chairman of the Risk and Capital Committee reported on these topics to the Board of Directors after each meeting and, on the Committee's behalf, submitted its recommendations to the Board for final decision-making.

## Audit Committee

The Audit Committee helps the Board of Directors fulfil its supervision and monitoring duties in the area of internal control in the broadest sense within Fortis. That includes internal control of financial reporting.

The Audit Committee comprises four members: Klaas Westdijk (chairman), Philippe Bodson, Richard Delbridge and Ronald Sandler. Each member has substantial financial or accounting experience, gained as either CEO or CFO of a major listed company, including financial institutions.

The Audit Committee is supported in its activities by the corresponding committees at key operating companies, by a number of Fortis support services, including Fortis Audit Services, Compliance and the Reporting Office, and by Fortis's external auditors, KPMG and PricewaterhouseCoopers.

The Audit Committee met on six occasions in 2005. Attendance details can be found on page 72. All its meetings were attended, at the Committee's invitation, by the CEO, the COO, the CFO, the external auditors, the General Auditor and Deputy General Auditor, and the Company Secretary.

The Audit Committee also met in closed session with the external auditors, and the committee chairman held regular meetings with the General Auditor.

The Audit Committee considered the following matters in 2005:

- Monitoring the integrity of quarterly and annual financial statements: consistent application of the valuation and accounting principles, consolidation scope, quality of the closure process, and significant issues brought forward by the CFO or the external auditors. The Committee also reviewed the press releases on the quarterly and annual figures;
- Follow-up of the implementation of IFRS, key policy decisions taken in this respect, and the impact of IFRS on Fortis;
- Monitoring the risk management and control system, based on reports by management (including the annual outcome of the management control statements process), the Compliance function and Fortis Audit Services. Reporting by Fortis Audit Services to the Audit Committee includes a quarterly management letter as well as reports on 'focal point audits' and an annual 'Risk Management Process Review';
- Monitoring the external audit process. This included the review and approval of the external audit plan and the 'Engagement Letter 2005', and the review of the quarterly Auditors' Letters. The Audit Committee also monitored the independence of the external auditors, based on factors like their declaration of independence and fees, and by tracking the volume and nature of non-audit services pre-approved in line with Fortis's independence policy;
- Monitoring the internal audit process, based, amongst other things, on review and approval of the 2005 Audit and Action plan and periodic reporting by Fortis Audit Services itself, and the review and approval of the department's updated charter. The Audit Committee also discussed the joint external assessment of Fortis Audit Services by the Belgian and Dutch banking and insurance regulators;
- Regular updates on specific matters like pension reporting, the actuarial reporting process and Basel II;
- New policies regarding the audit committees at Fortis companies and the auditing of joint ventures;
- Review of the disclosures in the Annual Review on Audit Committee activities and internal control;
- Self-assessment of the performance of the Audit Committee.

The chairman of the Audit Committee reported on these matters to the Board of Directors after each meeting and advised the Board on decision-making. The Audit Committee also advised on the incorporation of the audited Financial Statements in the Annual Report.

## Executive Management

Fortis's Executive Management consists of the Chief Executive Officer (CEO) and the Executive Committee. They run Fortis in keeping with the values, strategies, policies, plans and budgets endorsed by the Board of Directors.

### Composition and duties

The CEO is Fortis's top executive. As such he plays a crucial role in developing our company's values and strategic vision and in communicating them internally and externally. He is also responsible for enabling the Board and the Chairman to exercise their responsibilities – by ensuring, amongst other things, an appropriate flow of information and proposals for decision-making by the Board – and for maintaining ongoing interaction and dialogue.

The Executive Committee consists of the CEO and members entrusted with executive management functions within Fortis. Each member is accountable for one of Fortis's businesses or for a number of support services ('horizontal functions'). Members are appointed by the Board, having been proposed by the CEO in consultation with the Chairman and supported by the Nomination and Remuneration Committee. The Executive Committee's responsibilities are as follows:

- Studying, defining and preparing – under the CEO's leadership – strategic options and proposals that may contribute to Fortis's development;
- Proposing Fortis policies in areas like finance and risk management, submitting the proposals for the Board's approval and implementing the resultant policies;
- Supporting the CEO in the management of Fortis as a whole and the day-to-day management of the parent companies and group holding companies.

The Executive Committee is accountable to the CEO in respect of each of these duties, while the CEO is accountable to the Board for the proper performance of the Executive Committee.

The Executive Committee meets once a fortnight according to a fixed timetable. Further meetings are held whenever necessary.

### Remuneration

The remuneration of executive managers consists of a fixed base salary, a variable annual incentive and a variable long-term incentive, which in 2005 was paid out partly in option rights and in cash and restricted shares. The level of the variable remuneration depends on factors such as individual performance, performance of the business relative to predefined targets and Fortis's performance relative to several companies in the financial sector. See note 12 of the Financial Statements for an overview of the remuneration policy and of the individual remuneration for 2005 of the CEO and the aggregate remuneration of members of the Executive Committee.

## Stock and option plans

Options on Fortis shares have once again been granted to selected members of senior Fortis management as a token of confidence in their personal contribution to the company's growth and development. The number of options to which each person could subscribe was determined individually according to the level and scale of their responsibilities. When option rights granted under this plan are exercised, new Fortis shares will be issued or previously repurchased shares will be used. Note 11 of the Financial Statements contains a review of the stock and option plans.

## Fortis and the corporate governance reference codes

Fortis's international structure, headed by two listed parent companies, one Dutch and one Belgian, confronts it with the daily challenge of applying two corporate governance systems, now featuring two separate reference codes. While these codes largely match in terms of their underlying principles, there are a number differences too.

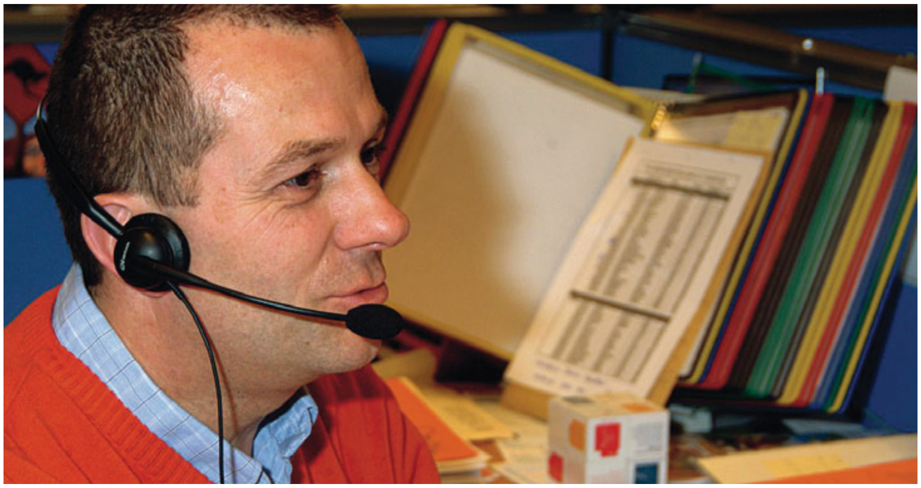
Because of the specific cross-border context in which Fortis operates, we have developed our own 'single tier' governance structure, while naturally observing all the relevant Belgian and Dutch legal requirements. The structure is described in detail in the Fortis Governance Statement to ensure optimum transparency and to demonstrate its internal coherence. What follows, therefore, is limited to those aspects of corporate governance at Fortis that require additional explanation in the light of the Belgian (Lippens) or Dutch (Tabaksblat) Codes.

### Fortis and the Lippens Code

The Lippens Code came into force on 1 January 2005. It applies to all companies incorporated under Belgian law, shares in which are traded on a regulated market. The Code uses the 'comply or explain' principle, which means that if a company chooses to deviate from any of the Code's principles, it should explain the reasons for doing so in the 'Corporate Governance' section of its annual review.

Fortis is applying all the Code's main principles, in line with the commitment we made last year. Two items require more detailed explanation:

- Principle 2.3: Independence of directors
  The Lippens Code states that: "To be considered independent, a director should be free from any business, close family or other relationship with the company, its controlling shareholders or the management of either that creates a conflict of interest such as to affect that director's independent judgement." The phrasing of this principle generally requires little comment. Questions may be raised, however, regarding its implementation and the way specific criteria in respect of a director's independence are formulated. The Lippens Code, the Tabaksblat Code,



## TeleClaims

**It's when something goes wrong that you really discover whether you picked the right insurer. Our TeleClaims call centre is open round the clock, seven days a week, to handle our Belgian customers' claims. A friendly Fortis voice is there for them, just when they need it.**

**That's why almost nine out of ten claimants last year said they would recommend Fortis to a friend looking for motor or fire cover.**

Article 524 of the Belgian Companies Act and the recommendation of the European Commission of 15 February 2005, for instance, all set out criteria which, if not actually contradictory, nevertheless differ from one another. For that reason, we have opted for our own criteria at Fortis, as set out in our Governance Statement. These match those of the Lippens Code, with the exception that Fortis considers it necessary to limit the restrictions on cross-directorships to listed companies.

- According to principle 7.18, the annual report should describe the main contractual terms of hiring and termination arrangements with executive managers. The remuneration policy for Fortis directors and Executive Committee members – described in detail in note 12 of our Financial Statements – sets out the main terms included in our contract with executive managers. This policy states that, for the future, executive managers will receive compensation equal to two times their base salary in the event that a contract is dissolved on Fortis's initiative. However, existing contracts, each of which was agreed in an earlier period and a specific set of circumstances, will be honoured.

### Fortis and the Tabaksblat Code

Since 2004, listed companies incorporated under Dutch law have been legally required to declare in their annual financial statements that they have adhered to the Tabaksblat Code or to explain any instances in which they have deviated from it. We stated in our 2004 Annual Review that Fortis had observed the principles and best practice provisions of the Tabaksblat Code in the year in question, with a number of exceptions, which we duly explained. Fortis's statement was discussed at our annual general meetings in May 2005. Shareholders attending those meetings shared the view of the Board of Directors that the proposed reappointment of Fortis's Chairman, Maurice Lippens, for a period of three years (i.e. until after the 2008 annual general meeting) would be in Fortis's interest. Consequently, the AGMs resolved in this instance not to apply the maximum term of twelve years recommended by the Tabaksblat Code (Best Practice provision III.3.5).

We have amended Fortis's existing internal regulations on insider trading – which also extend to Fortis directors – in response to statutory requirements and best practices in Belgium and the Netherlands. In line with Best Practice provision II.2.6, the Fortis Governance Statement includes a Policy Statement summarising the principles and guidelines on the use of inside information and private investments to be adhered to by all Board members, senior managers, officers and employees worldwide. Detailed internal regulations have been, or are being, developed to ensure compliance with prevailing legislation, regulations and business best practices. As these regulations are numerous and tailored to highly specific local or business requirements, they are not published on the company website.

Bearing in mind the points expressed above, we hereby declare that Fortis has complied with the principles and best practice provisions of the Tabaksblat Code, subject to the qualifications and exceptions mentioned hereafter.

Qualifications

Our aim at Fortis is to comply with the Tabaksblat Code to the maximum possible extent. We cannot, however, meet all of the Code's provisions. Some of them conflict with the internal

Did you know that Fortis... has a logo that reflects all the vibrancy, colour and variety of life? Not to mention the diversity of the markets in which we operate and the communities we serve.

## Singapore Children's Home

**Childhood is supposed to be a happy time. So it's all the more painful when a youngster falls victim to deprivation or abuse. The Singapore Children Society Convalescent Home cares for two to twelve year-olds as they take their first steps towards a better life.**

**Fortis recently 'adopted' the home. Volunteers from our staff in Asia make the kids' lives a bit more fun by organising monthly birthday parties. A small gesture that makes a big difference.**

coherence of our governance structure, which has been carefully developed over the years to meet the challenges facing a binational group. What's more, our single-tier board structure creates a specific framework that is not customary in the Netherlands and which did not function as the primary frame of reference for the drafting of the Tabaksblat Code.

When applying the Code, therefore, we have been obliged to translate the various provisions to fit our single-tier structure. Provisions aimed at the Supervisory Board or the Management Board have thus been applied to Fortis's Board of Directors, while provisions for individual members of the Supervisory Board have been applied to our non-executive directors and provisions for individual members of the Management Board to Fortis's CEO.

A number of provisions could not, however, be translated to the Fortis context. These include the rules regarding a 'delegated supervisory board member' and a 'supervisory board member who temporarily takes on the management of the company' (III.6.6 and III.6.7 of the Tabaksblat Code respectively): these provisions are geared specifically to supervisory board members and the supervisory tasks they have to perform, and so cannot be reconciled with the single-tier board model.

Similarly, the provision that the Chairman of the Board shall not have held an executive position within the company (III.8.1) is an anomaly in the context of a single-tier Board model, as the essence of that system is precisely to combine the expertise of executives and non-executives in one and the same decision-making body. Fortis's Chairman and co-founder, Maurice Lippens, was co-chairman of the Board and of the Executive Committee until 2000. Since 2000, he has been a non-executive Board member and Chairman of the Board.

Several provisions of the Tabaksblat Code do not, moreover, apply to Fortis. This is the case with the following sections: II.2.1 (share options as a conditional remuneration component for management board members – Fortis does not offer such options), III.2.1 (all supervisory board members, with the exception of not more than one person, shall be independent – III.8.4 sets out the rule as it applies to Fortis), IV.1.2 (voting right on financing preference shares – Fortis does not have this type of preference share) and IV.2–IV.2.8 (depositary receipts for shares – Fortis does not issue this type of depositary receipt). The aforementioned provisions have not, therefore, been taken into consideration.

Regarding section III.3.5, the view has been taken that Fortis's rule to the effect that a person may not serve as a director for more than twelve years, with each individual term not exceeding four years, does not materially deviate from the Code's requirement of a maximum of three terms of four years each.

Finally, the provisions regarding the 'remuneration committee' and the 'selection and appointment committee' have been interpreted as applying to our Nomination and Remuneration Committee, since this body brings together the strongly interrelated selection, appointment and remuneration functions at Fortis.

Exceptions
('BP' refers to the 'Best Practice' sections of the Tabaksblat Code)

- BP II.I.6: *The management board shall ensure that employees have the possibility of reporting alleged irregularities of a general, operational and financial nature in the company to the chairman of the management board or to an official designated by him, without jeopardising their legal position. Alleged irregularities concerning the functioning of management board members shall be reported to the chairman of the supervisory board.*
- Fortis has introduced a whistleblower procedure (Fortis Internal Alert System), but this has not been published on the website. The procedure is intended solely for Fortis employees; external publication would not enhance its effectiveness, but could have undesirable repercussions in

countries where procedures of this nature run up against legal and/or cultural objections.

- BP II.2.3: *Shares granted to management board members without financial consideration shall be retained for a period of at least five years or until at least the end of the employment, if this period is shorter.*
- Under the long-term incentive plan, shares can be awarded only to the CEO. He may sell up to 50% of the shares in order to pay the tax incurred on them. The remaining shares may not be sold until six months after his relationship with Fortis has terminated.

- BP III.1.7: *The supervisory board shall discuss at least once a year on its own, i.e. without the management board being present, both its own functioning and that of its individual members.*
- Fortis's Board of Directors regularly reviews its own performance in an appropriate manner, but not necessarily on an annual basis. The Nomination and Remuneration Committee evaluates the individual board members.

- BP III.5.11: *The remuneration committee shall not be chaired by the chairman of the supervisory board or by a former member of the management board of the company, or by a supervisory board member who is a member of the management board of another listed company.*
- The Chairman of the Board of Directors at Fortis is responsible for the proper functioning of the Board and for initiating all processes relating to this. These include ensuring a Board line-up that is geared to the needs of the organisation and also entails a leading role within the Nomination and Remuneration Committee.

Did you know that Fortis... provides the best analysis of Benelux equities, according to the Thomson Extel Survey of June 2005?

# Board of Directors

*Maurice Lippens*
*Philippe Bodson*
*Daniel Janssen*
*Rana Talwar*

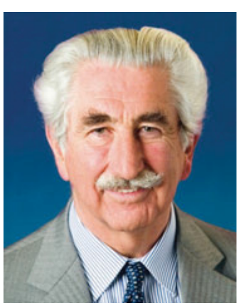
*Jan Slechte*
*Richard Delbridge*
*Jacques Manardo*
*Piet Van Waeyenberge*

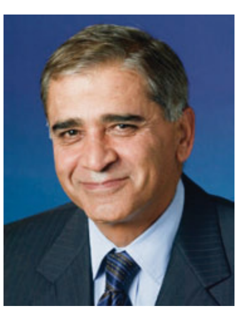
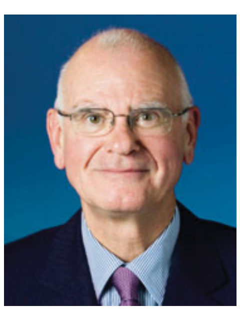
*Jean-Paul Votron*
*Jan-Michiel Hessels*
*Ronald Sandler*
*Klaas Westdijk*










**Count Maurice Lippens**
(1943 – Belgian – Independent)
Chairman of the Board of Directors and of the Nomination and Remuneration Committee.
(First appointed 1981. Term runs to 2008).
Other positions: Director Total, Director GBL (Groupe Bruxelles Lambert), Director Belgacom, Director Suez-Tractebel, Chairman Compagnie Het Zoute, Director Iscal Sugar, Director Finasucre, Director Groupe Sucrier, Member Trilateral Commission, Member Harvard Business School European Advisory Council, Member Insead Belgium Council.

**Jan Slechte**
(1937 – Dutch – Independent)
Vice-chairman and Member of the Nomination and Remuneration Committee.
(First appointed 1996. Term runs to 2006).
Other positions: Member Supervisory Board Samasgroep N.V., Chairman Supervisory Board TU Delft, Director Stichting Continuïteit Fortis.

**Jean-Paul Votron**
(1950 – Belgian – Executive)
CEO, Member of the Board of Directors.
(First appointed 2004. Term runs to 2008).
Other positions: Member Management Committee Federation of Enterprises in Belgium.

## Attendance at directors' meetings

| | | |
|---|---|---|
| Maurice Lippens | A: 8/8 | B: 4/4 |
| Jan Slechte | A: 8/8 | B: 4/4 |
| Jean-Paul Votron | A: 8/8 | |
| Philippe Bodson | A: 8/8 | C: 6/6 |
| Richard Delbridge | A: 8/8 | C: 6/6 |
| Jan-Michiel Hessels | A: 7/8 | D: 3/3 |
| Daniel Janssen | A: 7/8 | B: 4/4 |
| Jacques Manardo | A: 8/8 | D: 3/3 |
| Ronald Sandler | A: 8/8 | C: 6/6 |
| Rana Talwar | A: 6/8 | D: 2/3 |
| Piet Van Waeyenberge | A: 8/8 | D: 3/3 |
| Klaas Westdijk | A: 8/8 | C: 6/6 |

A: Board of Directors
B: Nomination and Remuneration Committee
C: Audit Committee
D: Risk and Capital Committee

**Baron Philippe Bodson**
(1944 – Belgian – Independent)
Member of the Board of Directors and of the Audit Committee.
(First appointed 2004. Term runs to 2007).
Other positions: Director CIB, Director Exmar, Chairman Floridienne, Director Fondation Bernheim, Member CSFB Advisory Board Europe, Director Hermes Asset Management Europe Ltd.

**Richard Delbridge**
(1942 – British – Independent)
Member of the Board of Directors and of the Audit Committee.
(First appointed 2004. Term runs to 2006).
Other positions: Non-executive Director Tate & Lyle PLC, Non-executive Director JP Morgan Cazenove Holdings, Non-executive Director Gallaher Group PLC, Council Member and Treasurer The Open University, Trustee The Wordsworth Trust.

**Jan-Michiel Hessels**
(1942 – Dutch – Independent)
Member of the Board of Directors and Chairman of the Risk and Capital Committee.
(First appointed 2001. Term runs to 2007).
Other positions: Chairman Supervisory Board Euronext N.V., Member Supervisory Board Royal Philips Electronics N.V., Member Supervisory Board Schiphol Group N.V., Member Supervisory Board Heineken N.V., Member International Advisory Board Morgan Stanley (until March 2006), Member International Advisory Board The Blackstone Group, Chairman Supervisory Board SC Johnson Europlant N.V.

**Baron Daniel Janssen**
(1936 – Belgian – Independent)
Member of the Board of Directors and of the Nomination and Remuneration Committee.
(First appointed 1999. Term runs to 2006).
Other positions: Honorary chairman Board of Directors Solvay SA, Vice-chairman Board of Directors UCB, Managing Director Solvac, Chairman Financière de Tubise SA, Chairman Advisory Board Solvay Business School, Member Steering Committee Trilateral Commission, Member Steering Committee European Round Table of Industrialists, Chairman Hoover Foundation for Brussels Free University.

**Jacques Manardo**
(1946 – French – Independent)
Member of the Board of Directors and of the Risk and Capital Committee.
Jacques Manardo was appointed member of the Nomination and Remuneration Committee in November 2005, with effect from 1 January 2006.
(First appointed 2004. Term runs to 2008).
Other positions: None.

**Ronald Sandler**
(1952 – German – Independent)
Member of the Board of Directors and of the Audit Committee.
(First appointed 2004. Term runs to 2007).
Other positions: Executive Chairman Computacenter PLC, Chairman Kyte Group, Chairman Oxygen Group PLC, President Chartered Institute of Bankers, Member of Herbert Smith Lawyers' Partnership Council, Advisor Palamon Capital Partners.

**Rana Talwar**
(1948 – Indian – Independent)
Member of the Board of Directors and of the Risk and Capital Committee.
(First appointed 2004. Term runs to 2008).
Other positions: Chairman Sabre Capital Worldwide, Non-executive Director Pearson PLC, Non-executive Director Schlumberger Ltd, Chairman Centurion Bank Ltd, Director Indian School of Business.

**Baron Piet Van Waeyenberge**
(1938 – Belgian – Independent)
Member of the Board of Directors and of the Risk and Capital Committee.
(First appointed 1988. Term runs to 2007).
Other positions: Chairman De Eik N.V. Brussels, Chairman Omroepgebouw Flagey N.V. Brussels, Chairman Indufin N.V. Brussels, Board member Suez Energy Services S.A. Paris, Director Stichting Continuïteit Fortis.

**Klaas Westdijk**
(1941 – Dutch – Independent)
Member of the Board of Directors and Chairman of the Audit Committee.
(First appointed 1996. Term runs to 2006).
Other positions: Chairman Supervisory Board ENECO Energie N.V., Member Supervisory Board Wolters Kluwer N.V. (until May 2005), Vice-chairman Supervisory Board VastNed Groep N.V., Chairman Supervisory Board Connexxion Holding N.V., Member Supervisory Board FD Media Groep B.V. (as of 1 July 2005).

**Company Secretary**
Michel van Pée (until 31 December 2005)
Ingrid Loos (from 1 January 2006)

**Stichting Continuïteit Fortis**

| | |
|---|---|
| René Mannekens (1940) | Co-chairman; first appointed 1999. Position: Chairman of the Board of 3 W Direct Management Solutions ICT. |
| Mick den Boogert (1943) | Co-chairman; first appointed 2004. Positions: Professor of Securities Law, University of Groningen, Lawyer. |
| Herman Santens (1934) | Member; first appointed 1999. |
| Dick Bouma (1944) | Member; first appointed 2004. Position: Lawyer. |
| Piet Van Waeyenberge (1938) | Member, first appointed 2004. Position: Non-executive Director Fortis. |
| Jan Slechte (1937) | Member; first appointed 1999. Position: Non-executive Director Fortis. |

# Executive Committee

From left to right: Gilbert Mittler, Filip Dierckx, Karel De Boeck, Peer van Harten, Jean-Paul Votron, Jozef De Mey, Jos Clijsters and Herman Verwilst.

**Jean-Paul Votron**
(1950 – Belgian)
Chief Executive Officer
Member Board of Directors
Other positions: Member Management Committee Federation of Enterprises in Belgium.

**Herman Verwilst**
(1947 – Belgian)
Deputy CEO
Chief Operating Officer
Other positions: Professor Extraordinary at the University of Ghent, 'Censor' at the National Bank of Belgium, Director Flemish Economic Association, Director Belgian Finance Federation (Febelfin), Member Executive Committee and Board of Directors of the King Baudouin Foundation, Member Instituto de Empresa International Advisory Board, Madrid.

**Gilbert Mittler**
(1949 – Belgian)
Chief Financial Officer
Other positions: None.

**Jos Clijsters**
(1950 – Belgian)
Other positions: National Chairman of Young Enterprises, Member Board of Directors Stichting Marketing, Director EHSAL Management School, Director Vlerick Management School.

**Karel De Boeck**
(1949 – Belgian)
Other positions: Chairman European Financial Management and Marketing Association (EFMA).

**Jozef De Mey**
(1943 – Belgian)
Other positions: Member Royal Association of Belgian Actuaries, Chairman Compagnie Belge d'Assurances Aviation (Aviabel).

**Filip Dierckx**
(1955 – Belgian)
Other positions: Member Board of Directors of various companies of the Group SD Worx, Member General Assembly Employers Association (Voka), Board member of Flemish Economic Association.

**Peer van Harten**
(1962 – Dutch)
Other positions: None.

# Shareholder information

## The Fortis share

The Fortis share represents one unified share in the Belgian and Dutch parent companies Fortis SA/NV and Fortis N.V. respectively. The share replaces the former Fortis (B) and Fortis (NL) shares and was first listed on 17 December 2001. At the end of 2005 the number of outstanding Fortis shares carrying voting rights and entitled to dividend was 1,301,140,005.

## Dividend policy

We revised our dividend policy because IFRS rules create more volatile results. For that reason, and as part of the long-term financial goals we set out in 2005, we have adopted a policy of paying a stable and growing dividend, taking account of our solvency, profitability and growth objectives. The Board of Directors will propose a cash dividend of EUR 1.16 to the Annual General Meetings of Shareholders on 31 May 2006. As an interim dividend of EUR 0.52 per share was paid in September 2005, the final dividend will amount to EUR 0.64 per share.

We began to pay an interim dividend in 2005. The amount of the interim dividend has been set as a matter of policy at 50% of the full-year dividend for the previous year. The interim dividend will be announced on publication of the half-year results.

## Growing international dimension

**Major shareholders** (on 31 December 2005)

| | |
|---|---|
| Stichting VSB Fonds | 5.52% |
| Shareholders in: | |
| • Belgium | 25% |
| • Netherlands | 11% |
| • United Kingdom | 18% |
| • Germany | 13% |
| • Rest of World | 28% |
| **Total (rounded figures)** | **100%** |

## Stock exchange listings

Fortis has a primary listing on both Euronext Brussels and Euronext Amsterdam, and has a secondary listing in Luxembourg. In the United States, we have a sponsored ADR programme.

**Index weighting** (on 28 February 2006)

| | |
|---|---|
| AEX Index | 9.55% |
| BEL20 Index | 16.11% |
| Euronext 100 | 1.84% |
| MSCI World | 0.18% |
| MSCI Europe | 0.58% |
| MSCI EAFE | 0.39% |

**Ticker symbols**

| | **Bloomberg** | **Reuters** |
|---|---|---|
| Euronext Brussels | FORB BB | FOR.BR |
| Euronext Amsterdam | FORA NA | FOR.AS |
| ISIN code BE0003801181 | | |

Did you know that Fortis... has been voted ‘Best Bank’ in both Belgium and Luxembourg for five years in a row (*Euromoney*, July 2005)?

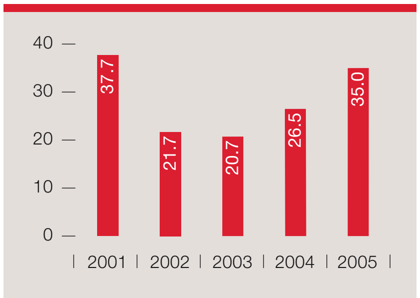
## Ratings

| | Fortis SA/NV and Fortis N.V. | | Fortis Bank SA/NV | |
|---|---|---|---|---|
| | Long term | Short term | Long term | Short term |
| Moody's | A1 | | Aa3 | P-1 |
| Standard & Poor's | A+ | A-1 | AA- | A-1+ |
| Fitch Ratings | A+ | F1 | AA- | F1+ |

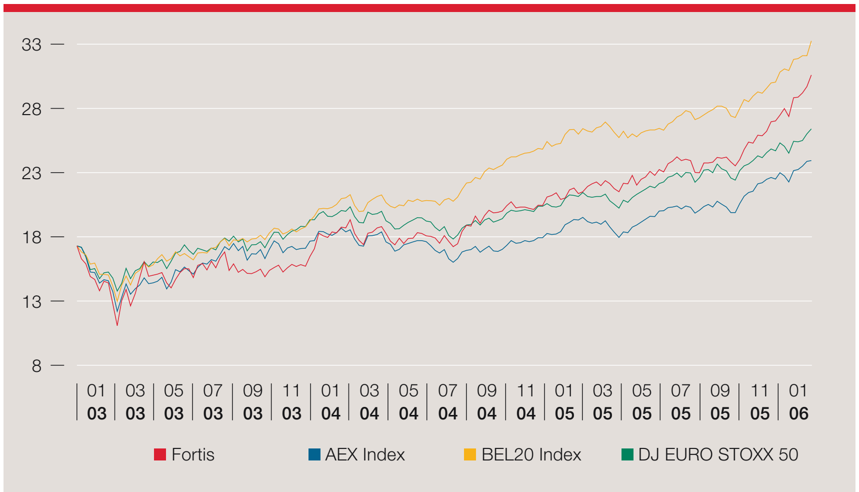
## Key figures

| Year-end | 2005 (IFRS) | 2004 (IFRS) | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Price/earnings | 8.8 | 8.7 | 9.4 | 40.8 | 14.5 |
| Price/equity | 1.8 | 1.7 | 1.7 | 2.0 | 2.7 |
| Earnings per share (in EUR) | 3.1 | 2.4 | 1.7 | 0.4 | 2.0 |
| Shareholders' equity per share (in EUR) | 14.8 | 12.0 | 9.2 | 8.4 | 10.7 |
| Gross dividend per share (in EUR) | 1.16 | 1.04 | 0.92 | 0.88 | 0.88 |
| | | | | | |
| Number of shares (in million): | | | | | |
| • Outstanding | 1,341 | 1,341 | 1,338 | 1,335 | 1,294 |
| • Carrying voting rights, entitled to dividend | 1,301 | 1,301 | 1,298 | 1,295 | 1,294 |
| | | | | | |
| Volume traded: | | | | | |
| • Average daily (number of shares x 1,000) | 5,618 | 5,425 | 6,871 | 5,999 | 6,234 |
| • Average daily (in EUR million) | 130 | 101 | 103 | 127 | 181 |
| | | | | | |
| Share price (in EUR): | | | | | |
| • Year high | 27.2 | 20.6 | 17.6 | 28.4 | 35.8 |
| • Year low | 20.6 | 16.4 | 9.3 | 13.5 | 21.7 |
| • Year average | 23.1 | 18.6 | 15.0 | 21.1 | 29.0 |
| • At year-end | 26.9 | 20.4 | 16.0 | 16.7 | 29.1 |

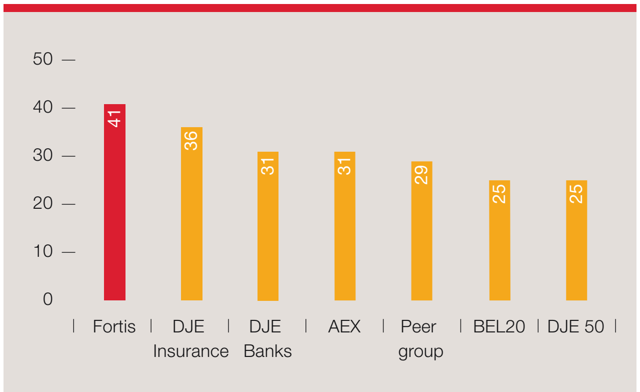
**Market capitalisation** (in EUR billion)



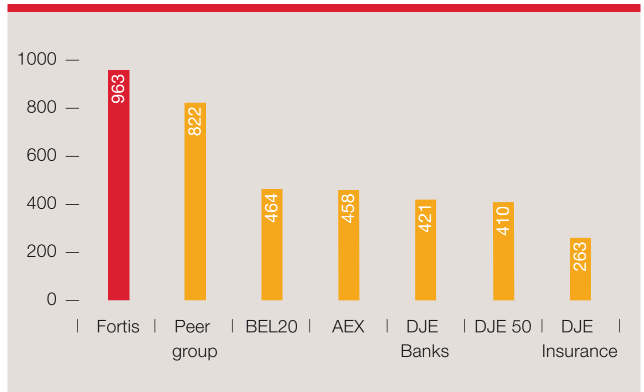

**Fortis share price performance compared with Euronext indexes**



**Total return in 2005** (in %)




**Total return in 1990-2005** (in %)




Peer group: average of 30 European financial companies. DJE: Dow Jones EURO STOXX Index

## Important dates in 2006

| | |
|---|---|
| Publication of 2005 annual results | 9 March 2006 |
| Publication of results for first quarter 2006 | 18 May 2006 |
| Publication of results for first half-year 2006 | 10 August 2006 |
| Publication of results for first three quarters 2006 | 9 November 2006 |
| Annual General Meetings of Shareholders | 31 May 2006 |
| Fortis share quotes ex-dividend | 2 June 2006 |
| Start of dividend election period | 2 June 2006 |
| End of dividend election period | 16 June 2006 |
| Payment of 2005 final dividend | 22 June 2006 |
| Fortis share quotes ex-interim dividend | 11 August 2006 |
| Start of interim dividend election period | 11 August 2006 |
| End of interim dividend election period | 30 August 2006 |
| Payment of 2006 interim dividend | 7 September 2006 |
| Analysts' meeting* | 10 March 2006 |
| Conference call for analysts* | 18 May 2006 |
| Analysts' meeting* | 10 August 2006 |
| Conference call for analysts* | 9 November 2006 |

* All presentations will be held in English and will be webcast (audio or video) live on www.fortis.com

**Annual General Meetings of Shareholders**

| | |
|---|---|
| Fortis SA/NV | Fortis N.V. |
| 31 May 2006, 9.15 am | 31 May 2006, 3 pm |
| Fortis Bank Auditorium | Fortis Auditorium |
| Rue de la Chancellerie 1 | Archimedeslaan 6 |
| Brussels, Belgium | Utrecht, Netherlands |

## Information

The Fortis website (www.fortis.com) provides information about Fortis, our corporate governance, organisation, strategy and results. You can also find our press releases there.

The Investor Relations department ensures that information flows continuously to the investor community. The department can be reached at:

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1000 Brussels, Belgium
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Fax: +32 (0)2 510 56 30
E-mail: ir@fortis.com
www.fortis.com/ir

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3584 BA Utrecht, Netherlands
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For debt investor information, please mail debtinvestorinfo@fortis.com or visit www.fortis.com/debtinvestors.

Fortis® is a registered trademark of Fortis SA/NV and Fortis N.V.

# Glossary

Affinity-based segment
Market segment united by its loyalty ('affinity') to a brand in the broadest sense (including charities and sports teams). This brand loyalty is then used to sell a new set of products or services, often provided by a third party (e.g. insurance policies branded by a supermarket).

Assurfinance
The selling of banking products through insurance brokers.

Bancassurance
The selling of insurance products through bank branches.

Basel II
Updated framework for the way banks and banking regulators calculate their credit risk capital requirement. It also introduces a new type of capital charge for operational risk such as fraud or IT issues. Basel II is based on the three pillars of minimum capital requirement, the supervisory review process and market discipline. The framework was prepared by the Basel Committee on Banking Supervision.

Basis point (bp)
One hundredth of a percentage point (0.01%).

CAGR
Compound Annual Growth Rate. The year-over-year growth rate applied to an investment or other element of a company's activities over a period of several years. The formula for calculating CAGR is (Current Value/Base Value)^(1/number of years)-1.

CDO
Collateralised Debt Obligation. American term for type of bond backed by a pool of bonds, loans and other assets. Payment of the principal and interest of the CDO is financed with the cash flows generated by the underlying financial assets. CDO is a class of asset-backed securities.

CFD
Contract for differences. An arrangement made in a futures contract whereby differences in settlement are made through cash payments, rather than the delivery of physical goods or securities.

Clearing
Administrative settlement of securities, futures and options transactions through a clearing organisation and the financial institutions associated with it (clearing members).

Combined ratio
The ratio between the insurer's total expenses (claims burden, commissions and general expenses) and premiums received. The combined ratio is only applied to non-life insurance.

Compliance
Department responsible for monitoring and managing the risks associated with a company's compliance with legislation and regulations. Fortis's Compliance Officers promote adherence to the internal code of conduct by advising management, businesses and individual employees.

Consumer finance
Short or medium-term credit provided to members of the public for a special purpose, such as the purchase of durable consumer goods. It does not include housing-related spending.

Core capital
Total available capital at group level (based on the banking definition of Tier 1 capital).

Corporate finance
General term for capital market-related services to finance mergers, acquisitions, buyouts, etc.

Did you know that Fortis... has a million contracted users of its online banking system in Belgium – a market share of 40%? This product is currently rated 'best buy' in the Belgian market.

COSO ERM framework
A control framework on Enterprise Risk Management (ERM) issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) in the United States.

Cost/income ratio
The ratio of operating costs and general expenses to net income. The lower the cost/income ratio, the more efficiently a company is operating. Also called 'efficiency ratio'.

Credit loss ratio
The ratio of specific provisions to average credit risk-weighted commitments. Also called 'loan loss ratio'.

Credit spread
The yield differential between government bonds and corporate bonds or credits.

Cross-selling
The strategy of using an existing customer base for one product as prospective customers for other products.

Custody
An agreement, usually between an investor and a bank (or possibly an agent or a trust company), whereby the investor deposits for safekeeping securities, gold or other valuables with the bank, which in turn takes the valuables into safekeeping for a fee.

Derivative
A financial instrument, traded on or off an exchange, the price of which is directly dependent upon (i.e. 'derived from') the value of one or more underlying securities, equity indices, debt instruments, commodities, other derivative instruments, or any agreed upon pricing index or arrangement.

DPF
Discretionary Participation Feature. This relates to the right of holders of certain insurance contracts and/or financial instruments to receive a supplemental return (in addition to guaranteed benefits). Its amount and/or time is contractually at the discretion of the issuers.

Disability insurance
Insurance against the financial consequences of long-term disability.

Divestment
The sale of assets. Also called 'disinvestment'.

Employee benefits
All forms of considerations given by an entity in exchange for service rendered by employees, in addition to their pay or salary.

Factoring
A form of corporate financing in which a company transfers outstanding debts to a factoring company that, for a fee, assumes responsibility for the debtor records, risk coverage and financing.

Fintro
Fortis's assurfinance network in Belgium. Fortis Bank is the sole supplier of banking products and loans. Fortis AG is the preferred supplier of insurance products.

Forward distribution integration
To gain access to (and control over) a distribution channel, e.g. bancassurance.

Funds under management
Assets (e.g. shares, bonds and property) managed by a financial services provider or fund manager on behalf of its clients.

Future
A financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price.

Gross inflow
Sum of gross written premiums and investment contracts without DPF (Discretionary Participation Feature).

Gross written premiums
Total premiums (whether or not earned) for insurance contracts written or assumed during a specific period, without deduction for premiums ceded.

Hedge accounting
Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

IFRS
International Financial Reporting Standards, previously International Accounting Standards (IAS), used as a standard for all listed companies within the European Union as of 1 January 2005 to ensure transparent and comparable accounting and disclosure.

Impairment
A decline in value whereby the carrying amount of the asset exceeds the recoverable amount. In such a case, the carrying amount will be reduced to its recoverable amount through the income statement.

### Intermediary
Person or institution facilitating a transaction between a buying and a selling party. In the insurance business independent intermediaries market insurance products to customers. In the banking business Fortis Bank acts as intermediary in its capacity of securities broker.

### Intermodal sector
Container transport sector.

### Joint venture
A strategic alliance undertaken jointly by two or more parties bringing in capital and know-how, but otherwise retaining their separate identities.

### Leasing
An agreement in which one party gains a long-term rental agreement, and the other party receives a form of secured long-term debt.

### Loan syndication
A process in which banks resell portions of large loans to other banks.

### Marked-to-market
Valuation at market prices, as of the balance sheet date, of securities and derivatives held for trading purposes.

### Market capitalisation
Value attributed to the company by the stock market. Market capitalisation corresponds to the number of shares outstanding multiplied by the share price at a given time.

### Non-performing loans
Loans that are impaired and/or uncollectible.

### Operating leverage
The difference between revenue growth and cost growth.

### Operating margin
Operating income divided by net premium. Operating income is the profit or loss stemming from all operations, including underwriting and investments.

### Option
A privilege sold by one party to another that offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security at an agreed-upon price during a certain period of time or on a specific date.

### Organic growth
The growth rate of a company excluding any growth from acquisitions, divestments or exchange rate movements.

### Personal lines insurance
Insurance for individuals and families, such as car and homeowners' insurance.

### Private equity
Equity securities of companies that are not listed on a public exchange. Transfer of private equity is strictly regulated; therefore, investors looking to sell their stake in a private company have to find a buyer in the absence of a marketplace.

### RARORAC
The Risk Adjusted Return On Risk Adjusted Capital (RARORAC) is a performance yardstick that establishes a consistent relationship between the risks and returns of a company's various activities. RARORAC is calculated by dividing the risk-weighted return by the economic capital, after incorporation of diversification benefits. The risk-weighted return is itself determined on the basis of the result before tax and discontinued operations, with provisions for credit risks being replaced by estimated, cycle-neutral expected losses.

### Return on equity (ROE)
The ratio (in percent) between the net profit and the average shareholders' equity for a financial year. A measure of profitability of equity indicating the return that a company achieves on the capital it employs.

### Reverse repurchase agreement
The purchase of securities with an agreement to resell them at a higher price at a specific future date.

### Risk-weighted commitments
Total commitments calculated on the basis of the risks relating to the various balance sheet terms.

### Shadow accounting
According to IFRS 4 an insurer is permitted, but not required, to change its accounting policies so that a recognised but unrealised gain or loss on an asset affects the measurement of the insurance liabilities. The related deferred adjustment to the insurance liability (or deferred acquisition costs or intangible assets) is recognised in equity only if the unrealised gains or losses are recognised directly in equity.

### Shareholders' equity
The residual interest in the assets of the entity after deducting all of its liabilities. Financial institutions are obliged to keep sufficient shareholders' equity to meet their obligations towards customers.

Solvency II
A fundamental and wide-ranging review of the current solvency rules for European insurance companies in the light of current developments in insurance, risk management, finance techniques and financial reporting.

Straight-through processing
Processing of financial transactions without manual or visual intervention.

Structured credits
A general term used to describe either the practice or the result of creating securities by repackaging cash flows from financial contracts.

Technical result
The result generated by the underwriting of insurance contracts including financial revenues and capital gains related to these contracts. Only used in the insurance business.

Tier 1 ratio
Core capital of a bank expressed as a percentage of the risk-weighted balance sheet total.

Total capital ratio
Total capital of the bank expressed as a percentage of total risk-weighted commitments. The minimum standard set by the Bank for International Settlements is 8%.

Value added by new life business
The discounted present value of the future distributable shareholder net cash flows expected from the block of new business written in a specified period.

VaR
Abbreviation of Value at Risk. A technique which uses the statistical analysis of historical market trends and volatilities to estimate the likelihood that a given portfolio's losses will exceed a certain amount.

Vendor leasing
A working relationship between a leasing company and a vendor to provide leasing to the vendor's customers. In some sense, the leasing company acts as an extension of the vendor, providing credit checking, billing and documentation collection services, and customer service.


## Going the extra mile

**From Walkathons to cycling from Land's End to John o'Groats, Fortis people in the UK go a whole lot of extra miles for their local communities.**

**Employees of Fortis Insurance Ltd., for instance, have raised close to EUR 30,000 to date for charities devoted to helping sick youngsters. A room in the new Children's Unit at the Gloucestershire Royal Hospital has even been named in Fortis's honour in recognition of our staff's sustained fund-raising efforts.**

# Where you'll find us

(situation at year-end 2005)

**United Kingdom**
Fortis Investments
7 Business Centres
Private Banking office
Merchant Banking
Fortis UK

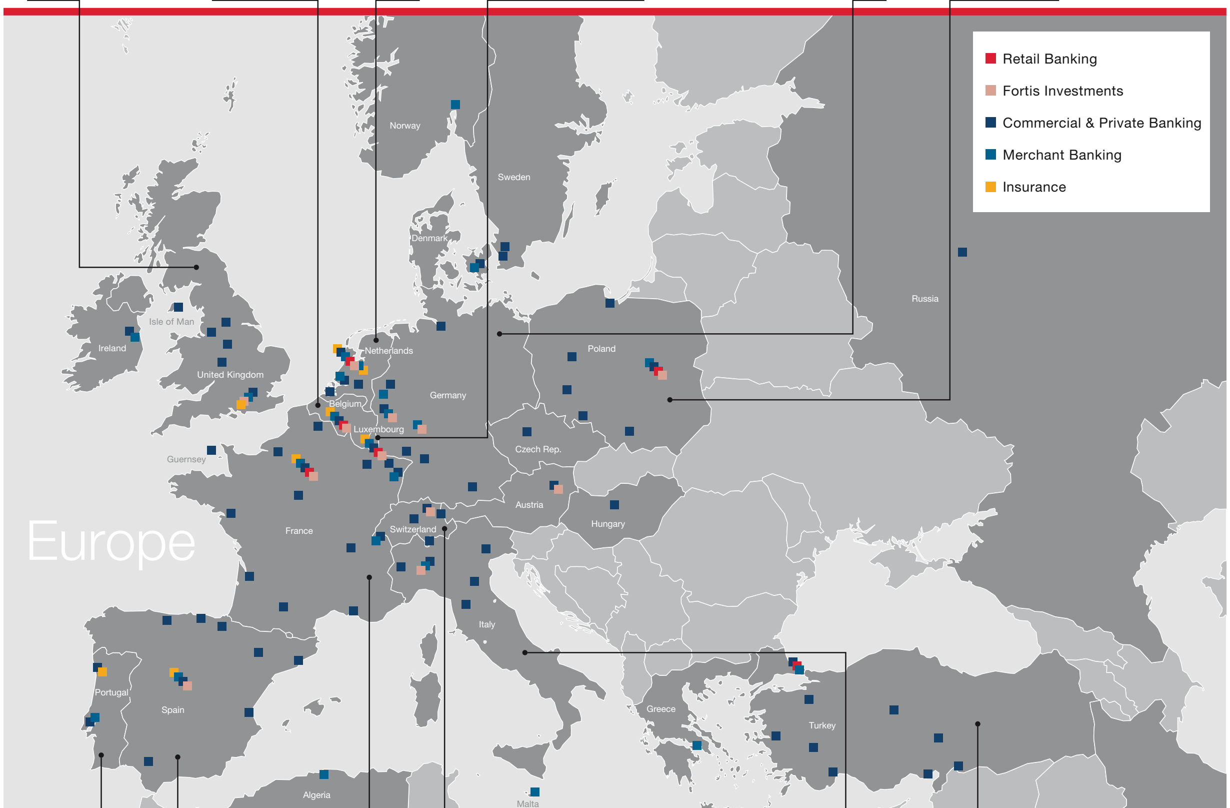
**Belgium**
1,128 Retail branches
Fortis Investments
25 Business Centres
7 Private Banking offices
Merchant Banking
Fortis AG + FB Insurance
Fortis Corporate Insurance

**Netherlands**
169 Retail branches
Fortis Investments
23 Business Centres
11 Private Banking offices
Merchant Banking
Fortis Insurance Netherlands
Fortis Corporate Insurance

**Luxembourg**
37 Retail branches
Fortis Investments
1 Business Centre
5 Private Banking offices
Merchant Banking
Fortis Luxembourg Assurances
Fortis Corporate Insurance

**Germany**
Fortis Investments
6 Business Centres
Merchant Banking

**Poland**
32 Retail branches
Fortis Investments
6 Business Centres
Private Banking office
Merchant Banking




**Portugal**
2 Business Centres
Merchant Banking
Millenniumbcp Fortis (51%)

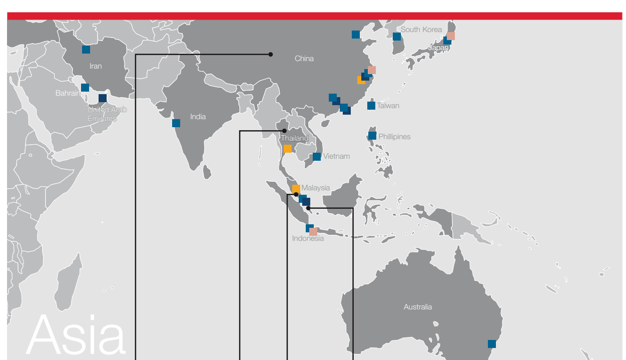
**Spain**
Fortis Investments
5 Business Centres
8 Private Banking offices
Merchant Banking
Caifor (Life: 40% - Non-life: 60%)

**France**
80 Retail branches
Fortis Investments
18 Business Centres
Private Banking office
Merchant Banking
Fortis Assurances

**Switzerland**
Fortis Investments
1 Business Centre
7 Private Banking offices
Merchant Banking

**Italy**
Fortis Investments
5 Business Centres
4 Private Banking offices
Merchant Banking

**Turkey**
174 Retail Branches
12 Business Centres
Private Banking office
Merchant Banking


**Curaçao**
Private Banking office
Merchant Banking

**China**
Fortis Investments
2 Business Centres
Merchant Banking
Taiping Life (24.9%)

**Thailand**
Muang Thai-Fortis (40%)

**Malaysia**
Mayban Fortis (30%)

**Singapore**
Private Banking office
Merchant Banking

Together, the Annual Review 2005 and the Financial Statements 2005 constitute the Annual Report of Fortis. The Financial Statements contain the financial statements of Fortis and the statutory accounts of Fortis SA/NV and Fortis N.V. The Annual Report is published in the English, Dutch and French languages. In case of any discrepancy between these versions, the French and Dutch texts shall prevail. Fortis has taken every precaution to ensure that there are no differences between the French and the Dutch versions. The Annual Report is also available on the internet: www.fortis.com.

Op uw verzoek zenden wij u graag het Jaaroverzicht 2005 in het Nederlands. Het Jaaroverzicht 2005 en de Jaarrekeningen 2005 vormen tezamen het Jaarverslag van Fortis. Het deel 'Jaarrekeningen' bevat de jaarrekening van Fortis en de statutaire jaarrekening van Fortis SA/NV en Fortis N.V. Het jaarverslag is verkrijgbaar in het Nederlands, Frans en Engels. In geval van verschillen tussen deze versies hebben de Franse en de Nederlandse versie de voorrang. Fortis heeft alles in het werk gesteld om zich ervan te vergewissen dat er geen verschillen zijn tussen de Franse en Nederlandse versie. Het jaarverslag is ook te vinden op internet: www.fortis.com.

Sur simple demande, nous vous enverrons volontiers le Synopsis de l'année 2005 en français. Le Synopsis de l'année 2005 et les Comptes annuels 2005 constituent ensemble le Rapport annuel de Fortis. La partie « Comptes annuels » présente les états financiers de Fortis et les Comptes statutaires de Fortis SA/NV et de Fortis N.V. Le rapport annuel est publié en français, en néerlandais et en anglais. En cas de divergence entre ces versions, les versions française et néerlandaise feront foi. Fortis a veillé à assurer, dans la mesure du possible, la concordance entre les versions française et néerlandaise. Vous pouvez également consulter le rapport annuel sur Internet : www.fortis.com.

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